

Mr. Peter Coppa  
Managing Partner  
Alternative Access Funds, LLC  
One World Trade Center, Suite 8500  
New York, NY 10007

November 10, 2020

**Re: AAF First Priority CLO Bond ETF (CUSIP 53656F656) (the "Fund")**

Dear Mr. Coppa:

Alternative Access Funds, LLC (the "Applicant") has requested that the NAIC Securities Valuation Office (SVO) opine on the regulatory treatment that would apply to the captioned security if an insurance company purchased it and sought to report it to state insurance regulators under the current NAIC regulatory guidance. We have concluded that existing regulatory guidance would adequately capture the risks posed by the captioned security.

**1. SVO Determinations** - Using the procedures in the December 31, 2019 *Purposes and Procedures Manual of the NAIC Investment Analysis Office (the "Purposes and Procedures Manual")*, we would assign the captioned security a preliminary **NAIC 1.A** Designation Category and will include the Fund on the "SVO-Identified Bond ETF List" as described in Part 3 of the *Purposes and Procedures Manual*.

**2. Regulatory Implications** - The above SVO determination means the captioned security will be included on the "SVO-Identified ETF Bond List" and as such shall, when purchased by an insurance company, be reported on Schedule D, Part 1-Long Term Bonds on the "Exchange Traded Funds – As Identified by the SVO" line of the NAIC Financial Statement Blank. The valuation rules and Risk-Based Capital factor associated with the assigned NAIC Designation are shown in Attachment I.

**3. Factors Supporting the SVO Determinations**

*a. Definition of Assigned NAIC Designation* – **NAIC 1** is assigned to obligations exhibiting the highest quality. Credit risk is at its lowest and the issuer's credit profile is stable. This means that interest, principal or both will be paid in accordance with the contractual agreement and that repayment of principal is well protected. An **NAIC 1** obligation should be eligible for the most favorable treatment provided under the NAIC Financial Regulation Standards and Accreditation Program.

*NAIC Designation Category* – Means and refers to 20 more granular delineations of credit risk in the NAIC 1 through NAIC 6 credit risk scale used by the NAIC Valuation of Securities (E) Task Force to relate credit risk in insurer-owned securities to a risk-based capital factor assigned by the NAIC Capital Adequacy (E) Task Force. Each delineation of credit risk is represented by a letter (a Modifier) which modifies the NAIC Designation grade to indicate a more granular measure of credit risk within the NAIC Designation grade. The more granular delineations of credit risk are distributed as follows: 7 for the NAIC 1 Designation grade indicated by the letters A through G; 3 delineations each for each of the NAIC Designation grades NAIC 2, NAIC 3, NAIC 4 and NAIC 5 indicated by the letters A, B and C and 1 delineation for NAIC Designation grade NAIC 6. The NAIC Designation Category framework is shown in this Manual. All Modifiers roll up into the respective NAIC Designation grade as they are a subset of them.

*b. Credit Quality Characteristics* – The preliminary **NAIC 1.A** Designation Category for the captioned security reflects our review of the Fund's holdings, its underlying index, and the investment guidelines and policies in the fund prospectus and statement of additional information.

*c. Status of ETFs in NAIC Guidance* - NAIC statutory accounting, annual statement reporting instructions and the *Purposes and Procedures Manual* provide that an investment in shares of an exchange traded fund ("ETF") shall be reported in scope of SSAP No. 30—*Unaffiliated Common Stock*, subject to specific exceptions. Shares of an ETF may be reported as a bond (under SSAP No. 26R—*Bonds*) if the SVO concludes, as part of its analytical determination and other analysis, that the ETF meets certain specific criteria and that the portfolio will consistently generate fixed income like cash flows.



If the SVO concludes that the Fund meets each of the required documentation, analytical procedures and eligibility criteria for an SVO-Identified Bond ETF in the *Purposes and Procedures Manual*, it may place the name of the Fund on the SVO-Identified Bond ETF List which permits an insurer that purchases the Fund to report it to the SVO for assignment of an official NAIC Designation Category and thereafter for the insurer to report the ETF within scope of SSAP No. 26R as discussed in paragraph f. below.

d. *Analytical Determination* – The analytical determination is predominantly based on an assessment of the characteristics of the securities in the portfolio and the structure of the Fund, with respect to leverage and equity investments. The preliminary NAIC 1.A Designation Category for the captioned security reflects the credit quality of the portfolio's current and potential investments. The Fund's portfolio, as of October 27, 2020, consisted of 96.26% NAIC 1 securities, 0.00% NAIC 2 securities, 0.00% NAIC 3 securities, 0.00% NAIC 4 securities, 0.00% NAIC 5 securities, and 0% NAIC 6 securities, with the remainder in cash and cash like assets. This means 96.26% of the Fund's assets are investment grade

e. *Characterization as Fixed Income Like* - The fixed income like classification reflects the fact that the Fund neither invests, nor intends to invest, in material amounts of preferred or common stock. Any lowering of credit quality of the Fund's eligible investments could result in a corresponding lowering of the captioned security's NAIC Designation Category, while material investment in preferred or common stock would result in the Fund no longer being eligible for Schedule D – Bond treatment. Instead, it would be captured under SSAP No. 30—*Unaffiliated Common Stock* or SSAP No. 32—*Preferred Stock*. Per applicable procedure, and current components of the Fund, the SVO will include the Fund on the SVO-Identified Bond ETF List published on the NAIC website.

f. *Statutory Accounting and Reporting* – The discussion in paragraphs c., d., and e. above mean the captioned security should be reported on Schedule D, Part 1- Long Term Bonds on the "Exchange Traded Funds – As Identified by the SVO" line. ETFs identified by the SVO are in scope of SSAP No. 26R—*Bonds* of the NAIC Accounting Practices and Procedures Manual and are reported at fair value unless the investment qualifies for and the reporting entity elects systematic value.

g. *Investment Guidelines and Use of Derivatives* – Per its prospectus, the Fund may not use derivatives for any purpose.

#### 4. Disclosures: Limitations –

a. *About this Letter* - This letter is issued pursuant to, is subject to the terms of, and shall be read in conjunction with, the Application for Regulatory Treatment Analysis Services which you or your representative has signed and which is hereby incorporated by reference. It conveys our opinion of how the risks, features or aspects of the captioned security would be treated under the named publication of the *Purposes and Procedures Manual* and/or other applicable NAIC guidance.

Our opinion reflects a review of the preliminary documents you presented to us and the terms, representations and assumptions they contained. No assurance can be given that the opinion expressed herein may not change if any aspect of the transaction is modified.

In accordance with the terms of the Application, we will not publicly disclose characteristics or features of the security or financial product which you have indicated to us is proprietary or confidential until either you inform us or we independently discover that public disclosure of that feature or aspect has been made. In accordance with the terms of the Application, we will make full disclosure of confidential information to members of the regulatory community, including the Valuation of Securities (E) Task Force as necessary and appropriate in private communications.

You may discuss the content of this letter with anyone, provided that the regulatory purposes and objective of the SVO and of this process are disclosed. For purposes of the preceding sentence, it shall be a sufficient disclosure of regulatory purposes if you provide a copy of this letter in full and refer the communicant to the Regulatory Treatment Analysis Service (RTAS) Application on the SVO webpage at [http://www.naic.org/svo\\_filing\\_applications\\_and\\_forms.htm](http://www.naic.org/svo_filing_applications_and_forms.htm).

b. *No Grant of Right to Collect and Distribute NAIC Designation Categories* - Nothing in this letter is intended to authorize, or shall be construed as authorizing, the Applicant or a recipient of this letter from the Applicant, to distribute the preliminary NAIC Designation Category indicated in this letter or an official NAIC Designation Category that may be subsequently assigned to the captioned securities; or a characterization or classification decision; on the Applicant's, or a recipient's, electronic computer system or its dissemination on the Applicant's, or a recipient's, public web-site without the express written permission of the NAIC contained in a separate License Agreement.



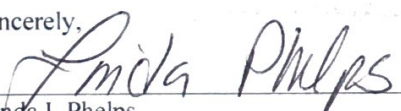
c. *Non Consent for Inclusion in Registration Statements or Prospectuses* – The NAIC SVO does not consent to the use of the RTAS Letter, the preliminary NAIC Designation Categories discussed above or any portion of this assessment in a registration statement or prospectus, as defined in US federal securities law and whether or not exempt from the registration requirements of the Securities Act of 1933, that would convey a credit rating opinion or an assessment of the merits of an investment in offered securities to an investor.

d. *About SVO Analytical Opinions* – The proper uses, purposes, objectives and limitation of SVO analytical products are described in the *Purposes and Procedures Manual*, the published version of which, mentioned in the first unnumbered paragraph of this letter, is hereby incorporated by reference.

- The excerpts of NAIC regulatory guidance contained in Attachment I is intended only as a general statement of applicable regulatory rules and standards and not as advice, instructions or guidance to any specific insurance company or other person who may purchase the captioned security. Insurance companies must refer to the then current NAIC publications of regulatory guidance such as Risk-Based-Capital, the Accounting Practices and Procedures Manual, the Annual Statement Instructions and state insurance laws as may be appropriate to its specific reporting situation.
- No SVO opinion in this letter should be treated as if it were intended to assist investors in making, buying or selling investment decisions.
- NAIC Designation Categories are produced solely for NAIC members and are indications of eligibility for certain regulatory treatment under the NAIC Financial Conditions Framework.
- SVO asset classification opinions are rendered solely in furtherance of specific and unique procedures developed by the NAIC and state insurance regulators for statutory reporting purposes.
- The SVO assessments and opinions on other investment risks in securities are similarly intended for application by state insurance regulators in context of the developing and evolving NAIC framework and individual state regulatory statutes, regulations and investment guidance based on the NAIC framework.

We appreciate the opportunity to have been of service to you. Please contact Jun Anno at (816) 783-8043 should you have any questions or concerns you wish to discuss.

Sincerely,



Linda I. Phelps  
Manager, Credit Rating and Valuation Group  
For the Senior Credit Committee

cc: Charles Therriault, Director, NAIC Securities Valuation Office  
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office

## Attachment I - Regulatory Treatment Driven by SVO Determinations

### FACTOR COMPARISON

Description	Current Life RBC <sup>a</sup> Pre-Tax Factor	Current Life RBC After-Tax "Factor"	Current P&C RBC Factor*	Current AVR <sup>b</sup> Maximum Reserve Factor
<b>Bonds /Preferred Stock</b>				
Class <sup>c</sup> 1	0.4%	0.3%	0.3%	0.3%
Class 2	1.3%	1.0%	1.0%	1.0%
Class 3	4.6%	3.4%	2.0%	3.4%
Class 4	10.0%	7.4%	4.5%	7.5%
Class 5	23.0%	17.0%	10.0%	17.0%
Class 6	30.0%	19.5%	30.0%	20.0%

<sup>a</sup> - The risk-based capital (RBC) is a calculation of the regulatory minimum capital and surplus that a company should have which is compared to the actual capital and surplus a company has. Certain actions by the company or state are specified if the minimum capital level is not met. No liability is set up on the balance sheet as a result of the RBC calculation.

<sup>b</sup> - The asset valuation reserve (AVR) is a liability that is set up on the balance sheet of a life insurer or fraternal benefit society based on the assets that are owned and the credit-related gains or losses that the company incurs.

<sup>c</sup> - The word class means and refers to the noted NAIC Designation category.

\* - For Schedule BA assets the RBC is 20% irrespective of the NAIC Designation category assigned to the security.

### NAIC Valuation Rules\*

1. **Bonds** - Excerpted from *SSAP No. 26R—Bonds*, paragraphs 4, 11, 24 and 25:
  4. The definition of a bond, per paragraph 3, does not include equity/fund investments, such as mutual funds or exchange-traded funds. However, the following types of SVO-identified investments are provided special statutory accounting treatment and are included within the scope of this statement. These investments shall follow the guidance within this statement, as if they were bonds, unless different treatment is specifically identified in paragraphs 23-29.
    - a. Exchange traded funds (ETFs), which qualify for bond treatment, as identified in Part Three of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and published on the SVO's web page of [www.NAIC.org](http://www.NAIC.org). (SVO-identified ETFs are reported on Schedule D – Part 1.)
    - b. Bond mutual funds which qualify for the Bond List, as identified in Part Three of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and published on the SVO's web page of [www.NAIC.org](http://www.NAIC.org). (SVO-identified bond mutual funds are reported on Schedule D – Part 1.)
11. Bonds, as defined in paragraph 3, shall be valued and reported in accordance with this statement, the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*, and the designation assigned in the *NAIC Valuations of Securities* product prepared by the NAIC Securities Valuation Office (SVO).
  - a. Bonds, except for mandatory convertible bonds: For reporting entities that maintain an asset valuation reserve (AVR), the bonds shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value. For reporting entities that do not maintain an AVR, bonds that are designated highest-quality and high-quality (NAIC designations 1 and 2, respectively) shall be reported at amortized cost; all other bonds (NAIC designations 3 to 6) shall be reported at the lower of amortized cost or fair value.
  - b. Mandatory convertible bonds: Mandatory convertible bonds are subject to special reporting instructions and are not assigned NAIC designations or unit prices by the SVO. The balance sheet amount for mandatory convertible bonds shall be reported at the lower of amortized cost or fair value during the period prior to conversion. This reporting method is not impacted by NAIC designation or information received from credit rating providers (CRPs). Upon conversion, these securities will be subject to the accounting guidance of the statement that reflects their revised characteristics. (For example, if converted to common stock, the security



will be in scope of *SSAP No. 30—Unaffiliated Common Stock* (SSAP No. 30), if converted to preferred stock, the security will be in scope of *SSAP No. 32—Preferred Stocks* (SSAP No. 32).)

24. SVO-identified investments shall be initially reported at cost, including brokerage and other related fees. Subsequently, SVO-identified investments shall be reported at fair value,<sup>1</sup> with changes in fair value recorded as unrealized gains or losses) unless the reporting entity has elected use of a documented systematic approach to amortize or accrete the investment in a manner that represents the expected cash flows from the underlying bond holdings. This special measurement approach is referred to as the “systematic value” measurement method and shall only be used for the SVO-identified investments within the scope of this statement.
25. Use of the systematic value for SVO-identified investments is limited as follows:
  - a. Systematic value is only permitted to be designated as the measurement method for AVR filers acquiring qualifying investments that have an NAIC designation of 1 to 5, and for non-AVR filers acquiring qualifying investments with an NAIC designation of 1 or 2. SVO-identified investments that have an NAIC designation of 6 for AVR filers or 3-6 for non AVR filers shall be measured at fair value.
  - b. Designated use of a systematic value is an irrevocable election per qualifying investment (by CUSIP) at the time investment is originally acquired<sup>2</sup>. Investments owned prior to being identified by the SVO as a qualifying SSAP No. 26R investment are permitted to be subsequently designated to the systematic value measurement method. This designation shall be applied as a change in accounting principle pursuant to *SSAP No. 3—Accounting Changes and Corrections of Errors* (SSAP No. 3), which requires the reporting entity to recognize a cumulative effect to adjust capital and surplus as if the systematic value measurement method had been applied retroactively for all prior periods in which the investment was held. The election to use systematic value for investments shall be made before the year-end reporting of the investment in the year in which the SVO first identifies the investment as a qualifying SSAP No. 26R investment.
  - c. Once designated for a particular investment, the systematic value measurement method must be retained as long as the qualifying investment is held by the reporting entity and the investment remains within the scope of this statement with an allowable NAIC designation per paragraph 25.a. Upon a full sale/disposal of an SVO-identified investment (elimination of the entire CUSIP investment), after 90 days the reporting entity can reacquire the SVO-identified investment and designate a different measurement method. If the reporting entity was to reacquire the same investment within 90 days after it was sold/disposed, the reporting entity must utilize the measurement method previously designated for the investment. Subsequent/additional purchases of the same SVO-identified investment (same CUSIP) already held by a reporting entity must follow the election previously made by the reporting entity. If an investment no longer qualifies for a systematic value measurement because the NAIC designation has declined, then the security must be subsequently reported at the lower of “systematic value” or fair value. If the security has been removed from the SVO-identified listings, and is no longer in scope of this statement, then the security shall be measured and reported in accordance with the applicable SSAP.
  - d. Determination of the designated systematic value must follow the established<sup>3</sup> approach, which is consistently applied for all equity/fund SVO-identified investments designated for a systematic value. In all situations, an approach that continuously reflects “original” or “historical cost” is not an acceptable measurement method. The designated approach shall result with systematic amortization or accretion of the equity/fund investment in a manner that represents the expected cash flows from the underlying bond holdings.

**Preferred Stock** - Excerpted from *SSAP No. 32—Preferred Stock*, paragraphs 19-22:

***Reporting Entities That Do Not Maintain An AVR***

<sup>1</sup> For these investments, net asset value (NAV) is allowed as a practical expedient to fair value.

<sup>2</sup> This guidance requires investments purchased in lots to follow the measurement method established at the time the investment was first acquired.

<sup>3</sup> Exhibit B details the established systematic value approach.

19. Highest-quality or high-quality redeemable preferred stocks (NAIC designations 1 and 2), which have characteristics of debt securities, shall be valued at cost or amortized cost. All other redeemable preferred stocks (NAIC designations 3 to 6) shall be reported at the lower of cost, amortized cost, or fair value.
20. Highest-quality or high-quality perpetual preferred stocks (NAIC designations 1 and 2), which have characteristics of equity securities, shall be reported at fair value. All other perpetual preferred stocks (NAIC designations 3 to 6) shall be reported at the lower of cost or fair value.

***Reporting Entities That Do Maintain An AVR***

21. Highest-quality, high-quality or medium quality redeemable preferred stocks (NAIC designations 1 to 3), which have characteristics of debt securities, shall be valued at cost or amortized cost. All other redeemable preferred stocks (NAIC designations 4 to 6) shall be reported at the lower of cost, amortized cost, or fair value.
22. Highest-quality, high-quality or medium quality perpetual preferred stocks (NAIC designations 1 to 3), which have characteristics of equity securities, shall be valued at cost. All other perpetual preferred stocks (NAIC designations 4 to 6) shall be reported at the lower of cost or fair value.

**Common Stock** - Excerpted from *SSAP No. 30—Unaffiliated Common Stock*, paragraph 4:

In addition, the following equity<sup>2</sup> investments are captured within scope of this statement:

- d. Exchange Traded Funds, except for those identified for bond or preferred stock treatment, as identified in Part Three, Section 2, of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and published on the SVO's web page of [www.NAIC.org](http://www.NAIC.org);

*\* The information presented in this Exhibit is a rudimentary explanation of applicable NAIC regulatory principles and are not presented as instructions or guidance to insurers or others who should in all instances refer to official NAIC guidance on RBC and to the Accounting Practices and Procedures Manual for the full text and related guidance.*

FOR INSTITUTIONAL USE ONLY. NOT FOR USE WITH THE RETAIL PUBLIC.

*The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and once available a copy may be obtained without charge, by calling the Fund at 1-800-617-0004. Read it carefully before investing.*

**Investing involves risk. Principal loss is possible. Shares of any ETF are bought and sold at market price (not NAV), may trade at a discount or premium to NAV, and are not individually redeemed from the funds. Brokerage commissions will reduce returns. The Fund is also subject to the following risks: Collateralized Loan Obligations (CLOs) are generally backed by a pool of credit-related assets that serve as collateral. Accordingly, CLO securities present risks similar to those of other types of credit investments, including default (credit), interest rate and prepayment risks. In addition, CLOs are often governed by a complex series of legal documents and contracts, which increases the risk of dispute over the interpretation and enforceability of such documents relative to other types of investments. An increase in interest rates may cause the value of fixed-income securities held by the Fund to decline. The Fund may be subject to a greater risk of rising interest rates due to the current period of historically low rates and the effect of potential government fiscal policy initiatives and resulting market reaction to those initiatives. The Fund's income may decline if interest rates fall.**

Preliminary NAIC Designations are the intellectual property of the National Association of Insurance Commissioners (NAIC) and are redistributed here under License. A Preliminary NAIC Designation is an opinion of the NAIC Securities Valuation Office (SVO) of the probable credit quality designation that would be assigned by the SVO to an investment if purchased by an insurance company and reported to the SVO. A Preliminary NAIC Designation is only one of the regulatory factors considered by the SVO as part of its analysis of probable regulatory treatment under the Regulatory Treatment Analysis Service (RTAS). A full discussion of such other regulatory factors is set forth in the RTAS Letter provided to Alternative Access Funds, LLC. A Preliminary NAIC Designation cannot be used to report the ETF to state insurance regulators. However, the purchasing insurance company may obtain an NAIC Designation for the ETF by filing the security and final documents for the ETF with the SVO. The indication of probable regulatory treatment indicated by a Preliminary NAIC Designation is not a recommendation to purchase the ETF and is not intended to convey approval or endorsement of the ETF Sponsor or the ETF by the NAIC.

NAIC Designations are the intellectual property of the National Association of Insurance Commissioners (NAIC) and are redistributed here under License. An NAIC Designation is a proprietary symbol used by the NAIC Securities Valuation Office (SVO) to denote a category or band of credit risk (i.e., the likelihood of repayment in accordance with a written contract) for an issuer or for a security. NAIC Designations may be notched up or down to reflect the position of a specific liability in the issuer's capital structure and/or the existence of other non-payment risk in the specific security. Under NAIC reporting rules, shares of an ETF are presumed to be reportable as common stock. The SVO may classify an ETF as a bond or preferred stock and assign it an NAIC Designation if it meets defined criteria. For a discussion of these criteria please call the SVO or refer to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*. The assignment of an NAIC Designation is not a recommendation to purchase the ETF and is not intended to convey approval or endorsement of the ETF Sponsor or the ETF by the NAIC.

The AAF First Priority CLO Bond ETF is distributed by Quasar Distributors, LLC.