The unprecedented and once 'unthinkable' State Street-Apollo ETF rollout is still setting off alarm bells for promising liquidity of illiquid assets with questionable plan, say lawyers, analysts and Morningstar

Analysts remain baffled why State Street and the Securities and Exchange Commission are leaving the essential liquidity issue unresolved.

Author **Oisin Breen** March 14, 2025 at 10:44 PM

1 Comment

Anna Paglia: More drama than was warranted was created in the market.

> ***Brooke's Note: When new products come to market, they are sometimes driven by consumers demanding them and entrepreneurs delivering the goods. Other times – like in the case of alternative investments – it sure seems entrepreneurs are producing a product, closing their eyes and hoping it all works out. What SSGA is attempting here is – to make an illiquid product liquid by putting it in a wrapper associated with liquidity – semi-reasonable. But like so many other attempts to get alts to investors, this one seems propelled in part by wishful thinking and the necessity of fighting back against squeezed profit margins. The PRIV fund that is the subject of this article charges .7%. It's a metaphor for a world of alts providers determined metaphorically to sell steak knives to children, and getting bloodied in the process. In the RIA business we know that nobody's retirement would have been sacrificed because they invested in the most vanilla index funds the past 20 years. A good place for your money might be SSGA's SPY, with its .09% fee, for example. So why do vendors keep dangling these products?***

State Street Global Advisors (SSGA) won a battle on Feb. 28 when federal regulators backed off from a Feb. 27 reprimand letter.

But it may have been a Pyrrhic victory. See: State Street – under protest – caves to SEC pressure.

The Boston ETF maker earned a reprieve from the Securities and Exchange Commission (SEC) for its concession to nix “Apollo” from the name of its SSGA/Apollo Public & Private Credit ETF (PRIV).

Vijay Raghavan: It will be difficult to maintain a fund like this.

The underlying liquidity issues that made using the Apollo name problematic did not go away — namely, who comes up with the cash for a large-scale investor liquidation of illiquid ETF assets.

The SEC's wrath and investor lawsuits are among the dangers of sticking with the status quo, said Ari Sonneberg, partner at Boston law firm, Wagner Law Group, via email.

“SSGA has no choice but to address this issue that is clearly on the SEC’s radar," he added.

“If the fund violated the ’40 Act' [by failing to meet liquidity requirements], the SEC could commence enforcement actions that could include fines and a cease-and-desist order.

"It would also open a wide door for investors to sue,” he said.

SSGA and Apollo have yet to respond to a request for comment.

Drama queens

In a March 13 Bloomberg interview, SSGA chief business officer Anna Paglia suggested the issue was an easily extinguished brushfire.

“More drama than was warranted was created in the market … we thought the process had concluded; it had not. We got the new comments, and we answered those comments within 24 hours," she explained.

Follow-up questions from the regulator – even after a fund launches – are "not unique," she added.

SSGA has had a "very healthy dialog" with the SEC, since it filed to launch the fund in Sept. 2024, she continued.

Marina Gross: I wouldn't go near it for now.

Seismic launch

But despite efforts to play down the 'drama,' the blow-up could hardly be more unique, wrote Brian Moriarty and Eric Jacobson, Morningstar senior principals for fixed income strategies, in a Mar. 11 article.

SSGA's reply to the SEC (click to read)

"There may be no precedent for what's happening right now," they say.

"It was once unthinkable that a fund with a novel and untested model would be allowed to launch without having undergone extensive scrutiny … it may set a precedent that could undermine the liquidity rule.

"We called this ETF's launch seismic, but such a precedent would be a much greater, and potentially negative one for investors," they wrote.

Reprieve

The PRIV ETF began trading on the New York Stock Exchange on Feb. 26, and SSGA filed its full agreement with Apollo on Mar. 5, after sustained pressure from the SEC to do so without redaction.

The filing states that Apollo is committed to buying only up to 25% of private credit holdings held by PRIV, on any given day, and up to a maximum of 50% in any given week.

Credit Spreads & Returns

6 Key Themes Shaping 2025

The Morningstar March 11 article explains in depth why this Apollo commitment “seems reasonable” and could “thrive” under certain conditions but also explains that it ultimately leaves investors vulnerable.
“The fund could get large enough that if it experiences net redemptions, the sheer volume would put strain on the liquidity arrangement, highlighting the risk of relying heavily on a single party to provide liquidity," Moriarity and Jacobsen write.

"This could put the portfolio upside down, with an ever-growing allocation to private credit as it sells its liquid public assets to meet redemption … In a worst-case scenario, Apollo may be unable or unwilling to satisfy the fund’s liquidity needs, and in such a scenario, there may be no one else to step in and fill the void.”

It goes on to give a hypothetical on how the liquidity well could go dry:

“If Apollo chooses to purchase the full 50% amount in a single day, SSGA would be unable to sell more to Apollo until four more trading days pass and the rolling weekly amount drops back to 0%.”

Further chiding

The SEC Division of Investment Management's Feb. 27 letter also reprimanded SSGA/Apollo for ignoring a series of questions.

Indeed, the SEC labeled use of Apollo Global Management's brand “misleading,” because Apollo wasn't obliged to sell debt to the fund – or buy it back to ensure liquidity – something that seemed to be implied by the branding.

SSGA won an apparent reprieve after promising to eventually delete “Apollo” from the product name. But as of today (Mar. 14), SSGA's website still displayed the Apollo name in PRIV's listing.

“The issue here is the nexus between Apollo and the fund – since the fund’s illiquid assets were not exclusively related to Apollo,” says Sonneberg.

Philip Waxelbaum: This is a narrow focus fund where investor interest could prove fickle.

“SSGA’s hand is being forced to re-brand to avoid the appearance of deceiving investors with the label,” he explains.

Anathema

The underlying liquidity problem still persists, analysts say.

Brian Moriarity and Eric Jacobson: [The ETF was once unthinkable... without... extensive scrutiny.

The whole magic of PRIV is that it can hold up to 35% illiquid private credit like a hedge fund, yet with all the liquidity of an ETF. The SEC caps conventional ETFs at a 15% holding of illiquid securities.

Yet for now, the fund is well below the 15% allocation – just 5%* of PRIV’s portfolio is invested in mostly highly liquid private credit, rendering it little different from most other fixed-income ETFs, according to CFRA research.

Currently, 42% of PRIV’s portfolio is invested in public corporate debt; 19% in securitized mortgages; and 15% in treasuries and cash instruments, the CFRA reports.

Nevertheless, the liquidity issue is glaring enough that typically staid asset management rivals are emboldened to cut loose.

“I wouldn’t go near it for now," said Marina Gross, head of Natixis Investment Managers Solutions.

“I would watch it very closely and very carefully,” she said at a media event last week.

"The whole essence of it is counterintuitive… that some third of the portfolio will be private – i.e. illiquid – but it will have all-day liquidity, not just daily liquidity, but all-day liquidity,” she said.

Interest high

Ari Sonneberg: The SEC could commence enforcement actions.

Analysts also remain wary over the strength of the SSGA/Apollo agreement.

Few investors have placed assets in the fund since its launch, but Paglia told Bloomberg wariness is par for the course.

“The wait-and-see approach is what we always expect when we launch active funds, because they are not as transparent and predictable as passive funds."

It's "very much what we believed would happen, but there's a lot of interest,” she explains.

Today PRIV manages $54.86 million, most of which is SSGA seed funding. It has also posted just ɔ days and $5 million of net inflows.

Apollo has pledged to provide PRIV access to private credit, and to act as a backstop buyer to ensure liquidity, but the two firms' agreement only states that Apollo must provide three bids for PRIV-held private credit per day, and only for a period of 15 minutes, and at a valuation of its choice.

“Unless there are other firms who can provide liquidity, I think it will be difficult to maintain a fund like this in two years' time,” says independent analyst Vijay Raghavan, formerly of Forrester Research, in an email exchange.

Apollo's obligations to the fund are also lower than initially expected, given it has no "contractual obligation to identify [or] make available (or offer) any investment"; its relationship "is not exclusive"; and SSGA may involve “counterparties," filings show.

Illiquidity danger

Morningstar associate director for fixed-income strategies, Brian Moriarity, and manager research analyst, Ryan Jackson also stated their concerns over Apollo’s role in an article last year.

SSGA “is relying on Apollo, not only to sell private credit instruments to the fund but also to … [enable] these normally illiquid investments to meet the SEC’s definition of liquid holdings ... [so] swaths of the portfolio deemed liquid could become illiquid if Apollo fails to provide the bids,” they said.

Now, SSGA has muddied the water even more, after it clarified that Apollo’s role is “non-exclusive,” Moriarity continues in the article he co-wrote with Jacobsen.

It “upend[ed] the entire apple cart,” the pair argue.

“The arrangement with Apollo as originally presented by SSGA raised plenty of concerns but at least formed the logical basis for an argument that the fund’s private-credit assets could avoid being labeled illiquid."

More company?

When SSGA first filed to launch PRIV, Sept. 10, 2024, three industry analysts, Moriarity included, said SSGA could ease liquidity concerns by getting other alternative investment managers to join Apollo in backstopping the illiquid portions of PRIV's portfolio. See: Apollo partners with State Street Global Advisors for ultimate moonshot.

Yet the SEC's firm response to the fund, post-launch, will likely have spooked them, says Raghavan.

“Given the attention the launch of this fund has gotten from the SEC, I wouldn't think other funds will offer liquidity until more time passes so they can monitor performance and see what other issues may arise,” he adds.

The loss of the Apollo brand from PRIV is unlikely to injure the fund too badly, however, says Philip Waxelbaum, principal of Masada Consulting, in an email exchange.

"This is a narrow focus fund where investor interest could prove fickle … [so it’s] not optimal, but also not fatal,” he explains.

With no pushback from the SEC in evidence, SSGA also recently launched the SPDR Bridgewater All Weather ETF (ALLW), Mar. 5. See: With Ray Dalio gone and assets down, Bridgewater wants retail assets, but at arm's length.

** In a Feb. 28 response, issued through Philadelphia, Penn. Law firm Morgan, Lewis & Bockius, SSGA stated that it “continues to disagree that the use of ‘Apollo’ in [PRIV]'s name is misleading,” but it agreed to “revise” the fund's full name, “subject to the approval of the Registrant’s Board of Trustees.”*

** CFRA PRIV portfolio data is accurate to Mar. 3.*

Dublin-native and Edinburgh-based Oisín Breen has spent seven years writing about finance, including five whirlwind years diving into the advisor world for RIABiz. A widely published and well regarded poet with two full collections under his belt, Breen is also an academic in English Literature with a deep fondness for his Scottish rabbit, Hessell. @Breen

Brooke Southall and Keith Girard contributed to the editing of this article.

State Street Global Advisors | Securities and Exchange Commission | Apollo Global Management

---

(1) COMMENTS

Brian Murphy

March 15, 2025 — 5:09 PM

PRIV is one of those rare products where you can easily see the fault lines before the fund even begins trading....it's really just a matter of time before the illiquidity becomes the albatross that kills the fund. Why not just watch from the sidelines. As has been said many times before - funds are not bought; they are sold.

POST A COMMENT