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CAPITAL

Accessing Private Markets with Interval Funds

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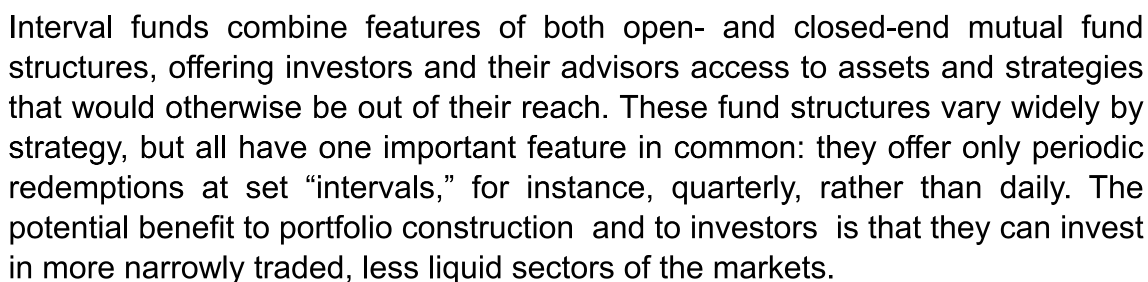

Interval funds combine features of both open- and closed-end mutual fund structures, offering investors and their advisors access to assets and strategies that would otherwise be out of their reach. These fund structures vary widely by strategy, but all have one important feature in common: they offer only periodic redemptions at set “intervals,” for instance, quarterly, rather than daily. The potential benefit to portfolio construction and to investors is that they can invest in more narrowly traded, less liquid sectors of the markets.

An interval fund is a type of closed-end fund, but it does not trade shares on the secondary market, such as the New York Stock Exchange. Instead, it periodically offers to repurchase a percentage of outstanding shares at its net asset value (NAV). Investors can buy shares daily at the current NAV.

One key feature of interval funds is their lack of daily redemptions. Instead of allowing investors to redeem shares at any time, these funds repurchase a specified percentage of shares at set intervals throughout the year, often quarterly. This structure enables fund managers to adopt a longer-term perspective when allocating capital.

Interval Funds vs. Traditional Mutual Funds

Interval funds share several advantages with mutual funds, such as low minimum investments and professional management, while also being subject to similar regulatory oversight. Both are pooled investment vehicles that allow individual investors to access diversified portfolios and are registered under the Investment Company Act of 1940. Here are some important distinctions between the two:

Liquidity: Open-end mutual funds offer daily liquidity, allowing investors to both invest and redeem shares at the closing NAV. In contrast, interval funds provide limited redemptions, offering to repurchase a set percentage of shares at designated intervals.

Redemption requirements: Interval funds must allow redemptions for at least 5% of their outstanding shares, subject to board approval. If demand exceeds this percentage, redemptions are granted on a pro-rata basis.

Investment restrictions: While mutual funds can only allocate a small portion of assets to less liquid investments, interval funds face no such restrictions, allowing for a broader array of investments with which to implement asset allocation.

	Open End Mutual Funds	Closed End Mutual Funds	Interval Funds
Regulation	SEC registered; subject to 40 Act requirements	SEC registered; subject to 40 Act requirements	SEC registered; subject to 40 Act requirements
Available for Purchase	Daily, at closing NAV	Daily, Market	Daily, at closing NAV
Available for Redemption/ Liquidity	Daily, at closing NAV, from fund manager	Can't redeem until fund matures but can be traded on an exchange	Typically, at quarterly intervals; for a minimum of 5% of shares outstanding
Tax Reporting	1099	1099	1099
Investment Types	Liquid investments	Typically, less liquid investments	Typically, less liquid investments

Potential Benefits of Interval Funds

The structure of interval funds provides several potential advantages:

Access to complex strategies: Investors can explore strategies and asset classes with lower liquidity or higher complexity, potentially leading to greater returns.

Institutional-grade investments: Interval funds often allow access to private investments with relatively low minimums.

Portfolio diversification potential: Interval funds are not traded on any exchange and have flexible mandates which may allow them to be less correlated to other traditional stock and bond investments, potentially helping mitigate aggregate volatility in a portfolio.

Opportunistic buying: The periodic repurchase schedule enables managers to take advantage of market dislocations (i.e., periods of market-wide forced or irrational selling).

Long-term focus: Fund managers can maintain a long-term investment approach due to the lack of daily redemptions.

Historically, less liquid investments, such as private investments (i.e., private equity, private credit, private real estate, and private infrastructure) were only available in private placement vehicles which typically have high investment minimums, performance fees, and cumbersome subscription agreements. The interval fund vehicle, with some limits to investments in the fund, allow a broader range of investors to access private market investments. Depending on the interval fund and its underlying investments, such as a fund that invests in co-investments, it may not charge a performance fee, a fee typically associated with many private funds.

Interval funds enable investors to explore strategies and asset classes with lower liquidity or higher complexity, potentially leading to greater returns.

Investing in private markets may allow individual investors to benefit from an "illiquidity premium," which can lead to higher returns in exchange for accepting less liquidity. Less liquid and illiquid areas of the market may offer the potential for enhanced levels of income and return compared to traditional stocks and bonds. They also may provide a specific diversification benefit, like lowering volatility or providing access to investments with low correlation to traditional investments.

Understanding the Risks

While interval funds offer unique opportunities, investors must be aware of the inherent risks. The reduced liquidity means investors should carefully consider their liquidity needs and investment timeframes.

Liquidity risk can be higher in interval funds that invest in smaller-cap stocks, lower-rated credits, private equity, real estate, and certain derivatives. Investors can only exit these funds at specified intervals, as outlined in the fund's prospectus, and there is no guarantee of being able to sell the desired number of shares.

It's essential for investors to thoroughly review all available fund documentation, including the prospectus and shareholder reports, and to consult with their financial advisor to determine the suitability of interval funds for their portfolios.

Redeeming Shares in Interval Funds

Interval funds offer liquidity through periodic share repurchase offers. Typically, these repurchases occur every three, six, or 12 months, with most funds opting for quarterly offers. Each repurchase must include between 5% and 25% of the fund's outstanding shares, though specific timing and intervals vary by fund.

Interval funds often allow access to private investments with relatively low minimums.

Shareholders receive a repurchase notice outlining the details of the process, including deadlines for submitting requests. While shareholders can choose not to participate in repurchase offers, those who do must indicate their interest by the specified deadline. If the repurchase requests exceed the available shares, the fund repurchases on a pro-rata basis, meaning there is no guarantee that all requests will be fulfilled.

Given the limited selling opportunities, interval funds should be viewed as long-term, mostly illiquid investments.

Supporting Long-Term Investment Goals

Interval funds can provide a variety of advantages for investors as they pursue their financial goals. The fund's structure enables convenient access to certain private investment asset classes, and its illiquidity feature can actually be a positive attribute if it encourages investors to maintain a long-term investment view.

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