

Institutional Access for Individual Investors

Interval funds provide access for investors seeking higher yields from private investments previously available to just institutional investors. Interval funds can provide a degree of liquidity that may assist financial advisors in diversifying their clients' portfolios, without overly constraining their need for liquidity. With choices ranging from real estate equity to debt, and private equity to structured credit, investors have many choices when determining the best allocation for their specific risk tolerance. Interval funds are classified as closed-end funds that offer daily purchase for investment, but liquidity for limited redemptions at specific intervals (usually quarterly). They are very different from traditional closed-end funds in that their shares typically do not trade on the secondary market. In addition, they are permitted to continuously offer their shares at a price based on the fund's NAV but aren't listed on an exchange, so they don't trade above or below NAV the way regular closed-end funds do.

Minimum investments in interval funds can be as low as \$2500, with the caveat that they should only be offered to investors who can bear the risks associated with limited liquidity and should be viewed as a long-term investment. That said, these restrictions help fund managers take a longer-term approach and avoid fire sales of assets at cheap prices. During times of sudden, massive redemptions, these restrictions may help boost returns. In addition, thanks to their largely illiquid structure, which allows fund managers to invest without the pressure of ongoing redemptions, interval funds tend to provide higher returns than open-end mutual funds.

There are caveats including higher fees and the restriction on withdrawals. Some funds allow only 5% of assets to be redeemed each quarter. If too many investors tender shares, each order is prorated. The repurchase pricing date typically occurs after shareholders submit their repurchase request. Depending on the volatility of the underlying investments, the Fund's NAV could fluctuate significantly prior to the repurchase pricing date.

Financial Advisors considering interval funds should consider what portion of their clients' portfolios could tolerate the long-term commitment required for this type of vehicle. Although some funds may offer 5% - 25% liquidity per interval, a maximum drawdown could have a significant impact on the NAV.

When considering an interval fund, Financial Advisors should examine:

Level of liquidity and transparency: A significant level of liquid assets held in the fund will ensure the ability to meet redemptions and also improves pricing transparency for investors.

Internal investment management vs. fund-of-funds approach: Interval funds using an outside manager may charge higher fees. A thorough understanding of the outside manager's added value is critical.

Fee structure: Interval funds are permitted to charge redemption fees, up-front sales charges, ongoing management fees, shareholder servicing fees, and fees associated with the underlying portfolio, which may or may not be disclosed, but are factored in to the NAV.

Conflicts of Interest: Conflicts can arise if the portfolio manager is allowed to invest in other funds of the sponsor and the fund may be permitted to loan its portfolio securities to other entities.

Source of distributions: Identifying when distributions are to be paid from net operating income and not a return of original investment income is imperative to know the impact on an original investment.

Qualified Due Diligence: Financial professionals and their clients may be faced with many decisions regarding interval funds. **Buttonwood Due Diligence, LLC** provides a detailed analysis of the legal and financial components of interval funds.



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