WHITE PAPER

October 2020

UMB Fund Services

fuse research network

Unlisted Closed-End Funds: Continued Growth during Uncertain Markets

Growth in unlisted closed-end funds continues to accelerate even through unprecedented challenges the COVID-19 pandemic has created for the asset management space. The following report provides a market update plus insight into regulatory changes, investment categories and asset managers influencing the category.

Access to illiquid asset classes and alternative strategies have long been the purview of institutional and high-net-worth investors.

Availability has shifted downstream through packaged products. Many of these packages have limitations because of daily liquidity demands. However, unlisted closed-end funds provide access to illiquid asset classes and alternative strategies for mass affluent clients and enable product manufacturers to manage liquidity.

Given ongoing interest and momentum, this white paper provides a market update as of the first quarter 2020, as well as insights into regulatory changes regarding investor accreditation, top investment categories, strategies and asset managers, including a manager spotlight highlighting Cliffwater. In addition, since we are experiencing an unprecedented time due to the COVID pandemic, this report addresses how asset managers with unlisted closed-end funds are navigating these challenges.

Key Findings

Key findings from this report include the following:

- **Interval funds are fast becoming the preferred unlisted closed-end fund (unlisted CEF) structure. Market share has grown from 19% at year-end 2014 to 53% as of March 2020. Interval funds are also the focus of product development, accounting for 84% of product launches over the last three years.**
- **Strategies focused on accredited investors continue to account for the majority of unlisted CEF assets with 61% market share.**
- **Unlisted CEFs are an emerging product structure with $62B in AUM. Product manufacturers will need to actively market their products to manage reservations about the overall structure (limited liquidity, fees, track records).**
- **However, growth of unlisted CEFs has been impressive. During the last three years, unlisted CEFs grew at an annual rate of 19%, 12% and 22%, respectively.**

In August 2017, FUSE Research Network and UMB Fund Services partnered to deliver a market sizing of interval funds and tender-offer funds, collectively known as unlisted closed-end funds (unlisted CEFs). The white paper, *An Opportunity to Differentiate with Unlisted Closed-End Funds*, provided an in-depth look at the product features, pricing structures and other unlisted CEF attributes. As the growth of unlisted CEF products accelerated, particularly within the interval fund space, we published multiple updates including the views of distributors and product manufacturers. Since the COVID pandemic has created unparalleled challenges for the asset management space, it is an appropriate time to revisit unlisted CEFs.

UMB Fund Services partnered with FUSE Research Network to produce the following report. While UMB Fund Services believes this report to be accurate and comprehensive, the data presented, positions taken and forward-looking statements made herein are attributable to FUSE Research Network.

As a quick recap, interval funds and tender-offer funds are continuously offered registered closed-end funds that provide periodic liquidity to investors. They are primarily differentiated by the structure of repurchase offers. For example, repurchase of interval funds is conducted pursuant to Rule 23c-3 under the Investment Company Act of 1940, as amended (the 1940 Act) while repurchase of tender-offer funds is conducted pursuant to tender offers at the discretion of the fund's board pursuant to Rule 13e-4 under the Securities Exchange Act of 1934, as amended (the 1934 Act).

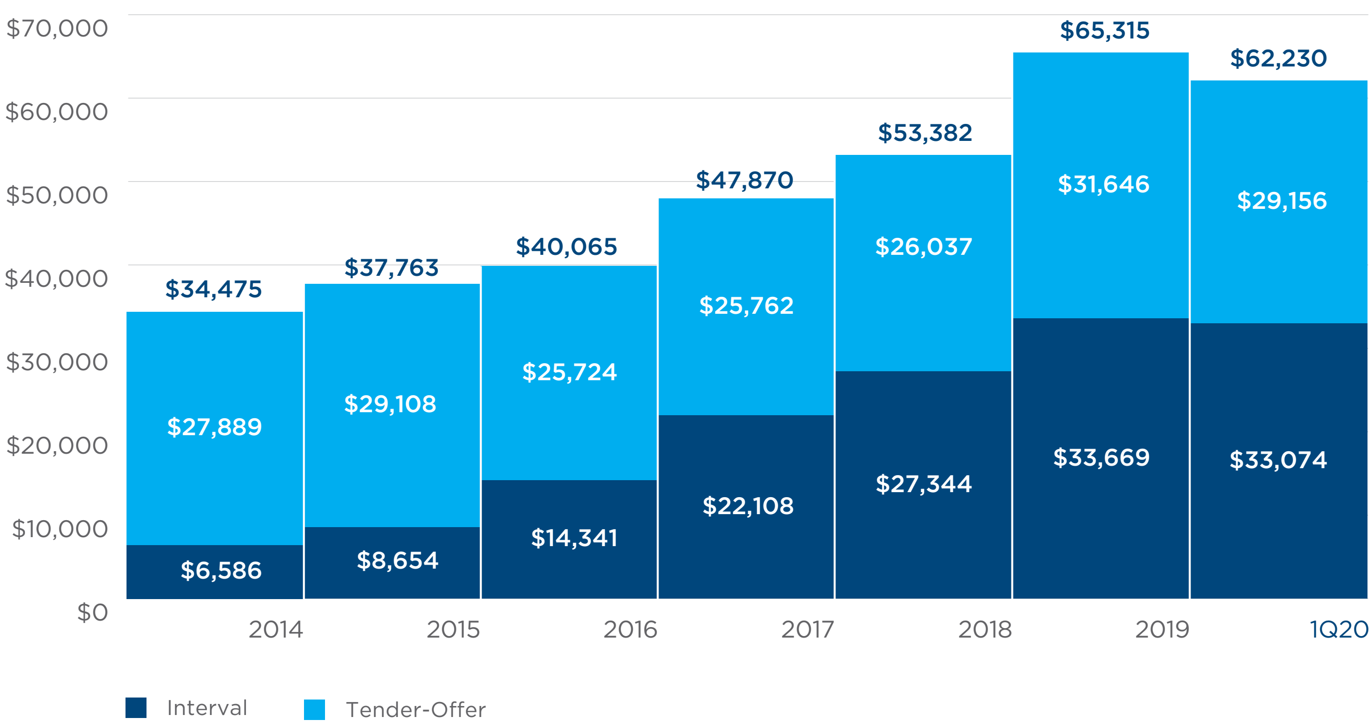
There were 121 unlisted CEFs available for purchase by investors regardless of accreditation status, with total assets under management (AUM) reaching slightly more than $62 billion as of March 2020. Similar to the trajectory we have reported in the past, interval funds continue to outpace tender-offer funds from an asset growth perspective. Since 2014, interval funds have grown at an annual rate of 36.0% as of March 2020 with $33.1 billion in assets. During this same period, tender-offer funds increased to $29.2 billion with a compound annual growth rate (CAGR) of 0.8%.

In 2014, interval funds represented only 19.1% of the unlisted CEF marketplace. They now represent to 53.1% of the space as of March 2020.[1]

Total AUM Unlisted CEFs	$62B
Total Funds Unlisted CEFs	121
Interval Fund Annual Growth Rate	36.0%

As of March 2020

EXHIBIT 1: UNLISTED CEF ASSETS, 2014-Q120 ($ MILLIONS)



Source: FUSE Research Network, September 2020

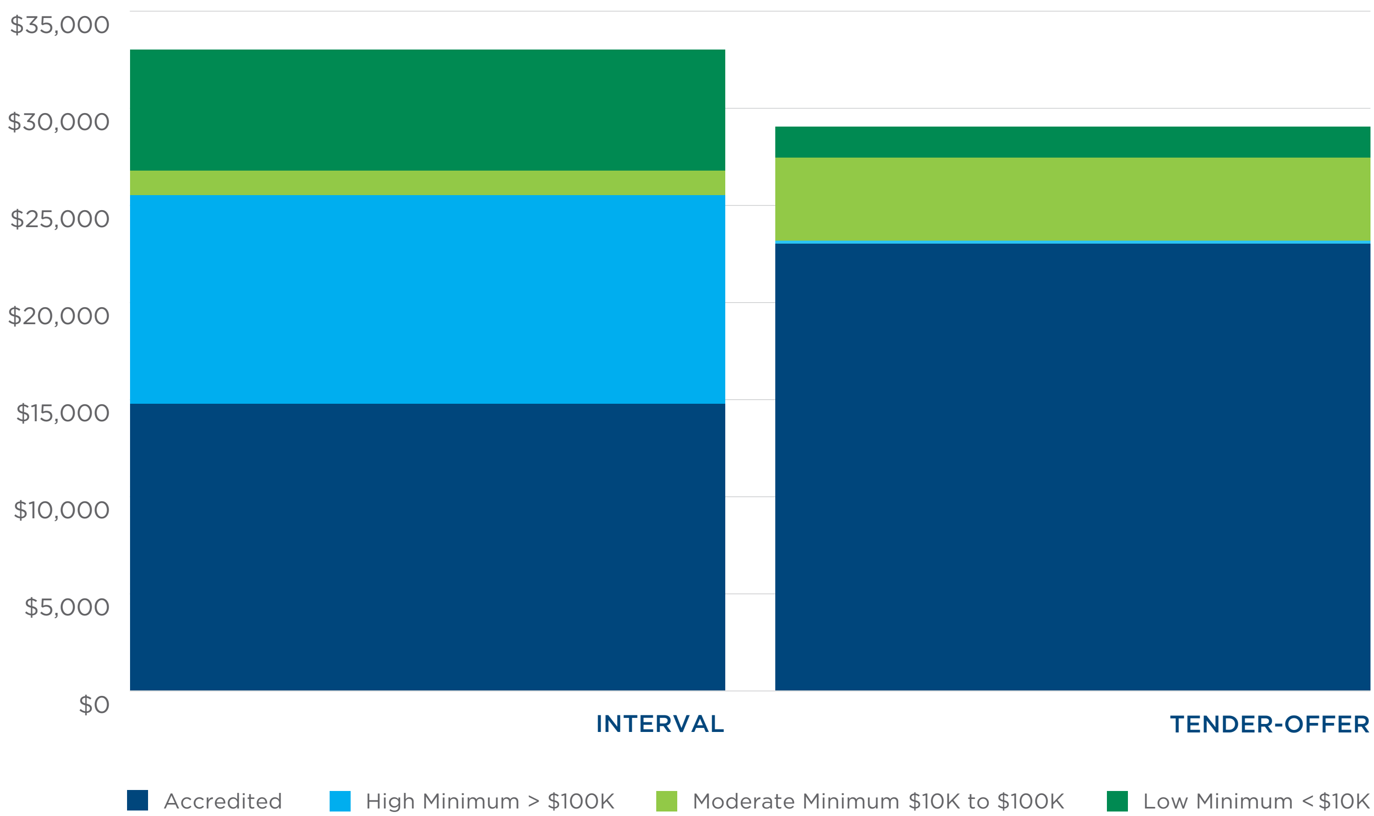
1 It is difficult to ascertain precise asset numbers due to different reporting periods and variability in buy-back and repurchase periods. Even determining the number of active funds is challenging, given that many remain in registration, are master/feeder structures or have never grown beyond their seed capital.

INVESTOR PROFILE

The potential audience for interval funds and some tender-offer funds is the broadest market—retail. The appeal of these vehicles is they provide a means for investors to participate in sophisticated, high-yielding and alternative investment strategies without the hurdles typically associated with private placement funds, such as K-1s, even more diminished liquidity and investor accreditation requirements. Yet, to date, majority of asset growth continues to be in funds that have an accredited investor requirement.

Nearly 61% of unlisted CEF assets reside in strategies that require investor accreditation. The number is even higher for tender-offer products at nearly 80%. Low minimum strategies account for approximately 13% of unlisted CEF AUM.

EXHIBIT 2: BREAKDOWN OF AUM BY INVESTOR TYPE ($ MILLIONS)



Source: FUSE Research Network, September 2020

Unlisted CEFs cannot charge performance fees unless the strategy is restricted to accredited investors. In turn, many asset managers have launched strategies with these requirements, limiting the investor pool and leading to the high concentration of assets. It is a simple rationale for asset managers—a sophisticated strategy that may provide access to low liquidity and private markets must be priced at a premium. In the eyes of these asset managers, it is difficult to obtain proper pricing without a performance fee.

Despite the majority of unlisted CEF assets falling with accredited investors, account minimums for these products are not exclusive to institutions or the ultra-high-net-worth. Nearly 52% of assets reside in products with $50,000 minimums or less. High, but not prohibitive.

Low minimum strategies have experienced solid growth since 2004, growing from $3.1 billion to $7.8 billion as of first quarter 2020. This represents a CAGR of 19.5%, which is well ahead of the overall space (11.9%).

A key to successfully selling these funds to accredited and retail investors lies in the education and training of investment advisors. Suitability and risk tolerances play important roles in the sale of these types of investments.

CHANGES IN INVESTOR ACCREDITATION

The Securities and Exchange Commission (SEC) amended the definition of an accredited investor in August 2020, expanding eligibility beyond strictly net worth or income requirements. Previously, accredited investors either earned $200,000 in annual income over a two-year period ($300,000 for joint income) or have a net worth greater than $1 million. The SEC will now permit investors to qualify based on "professional knowledge, experience or certifications." The changes to rule 501(a) allow the following groups to qualify as an accredited investor:

- Investors based on professional certifications, designations or credentials. Currently, holders in good standing of Series 7, Series 65 and Series 82 licenses qualify as accredited investors. The SEC may add other certifications, designations or credentials at a later date.
- "Knowledgeable employees" of a private fund
- LLCs with $5 million in AUM or more may be accredited investors and add SEC- and state-registered investment advisors
- Entities not formed for the specific purpose of acquiring the securities offered and owning investments in excess of $5 million
- Family offices with at least $5 million in assets under management and their "family clients," as each term is defined under the Investment Advisers Act
- Add the term "spousal equivalent" to the accredited investor definition, so that spousal equivalents may pool their finances for the purpose of qualifying as accredited investors.

As of 2016, there were an estimated 12 million accredited investors, controlling 78% of the U.S. private wealth assets (*SEC, dqydj.com*). That number has likely grown over the last three plus years, when the S&P 500 returned more than 14% annually (January 2017 through September 14, 2020). Equity market growth has delivered significant incremental net worth to many investors.

It is impossible to estimate the number of "new" accredited investors from the September amendment. Many investors who qualify under the new criteria were already accredited through their net worth or income. However, growth to the investor pool, even if it is only marginal, is a positive for the unlisted CEF space. Many asset managers are focused on the accredited investor pool because of the ability to capture significant fees. This amendment improves the opportunity to raise assets.

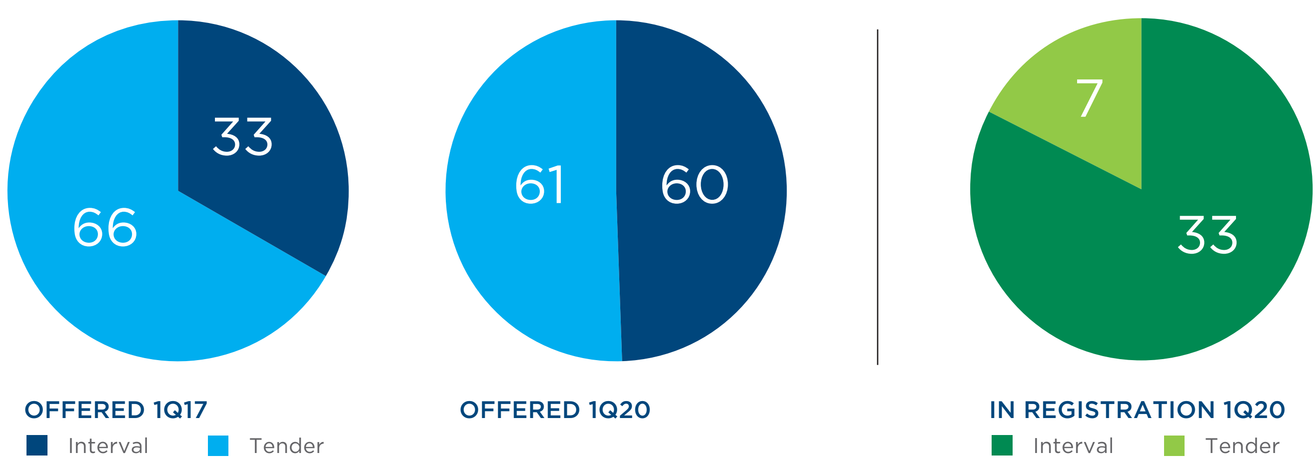
Market Overview

STRUCTURE AND STRATEGIES

Asset managers continue to launch strategies in the unlisted CEF space, reflected in the volume of new product development. During the last three years, the number of new products has increased by 22%, escalating from 99 products to 121.

Product development focus has centered on interval products, which have advanced by 82%, expanding from 33 funds to 60. Conversely, tender-offer funds have decreased by 8% over the same period, dropping from 66 funds to 61.

EXHIBIT 3: UNIQUE CEF OFFERINGS AND NUMBER IN REGISTRATION

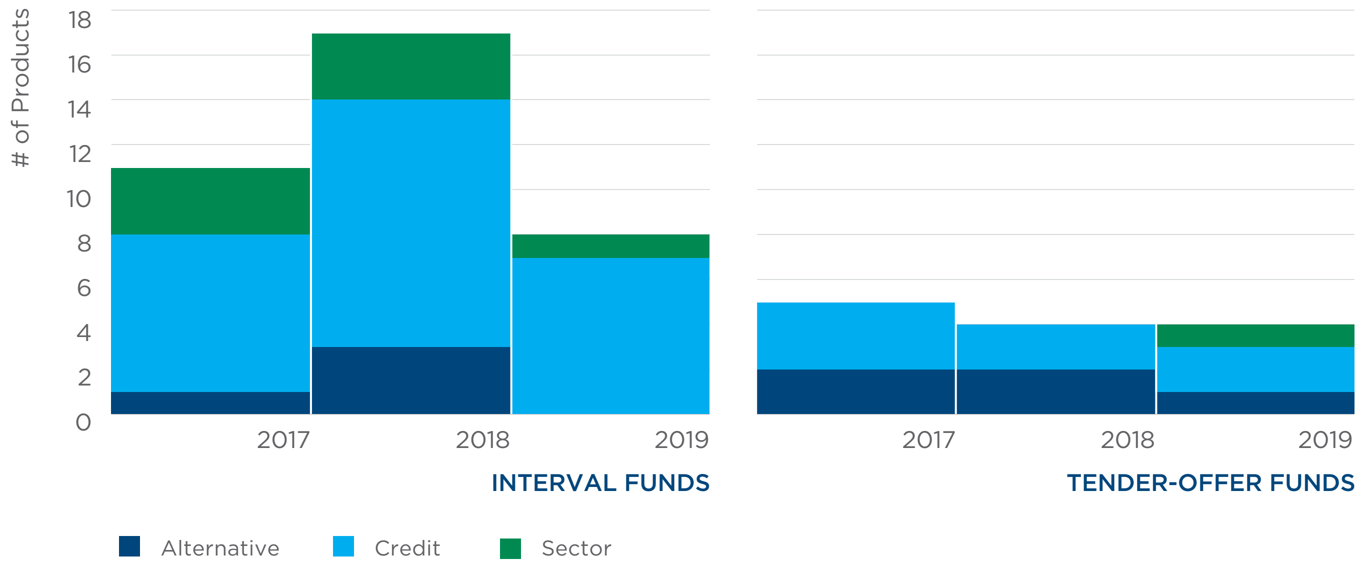


Source: FUSE Research Network, September 2020

In addition, interest in unlisted CEF product development continues. Thirty-three interval funds, more than half the volume of live products, and seven tender-offer strategies are in registration with the SEC.

Credit and alternative strategies have dominated product development trends since year-end 2016. The two categories account for 84% of unlisted CEFs new products.

EXHIBIT 4: NUMBER OF UNLISTED CEF PRODUCTS BY ASSET CLASS, 2017-2019



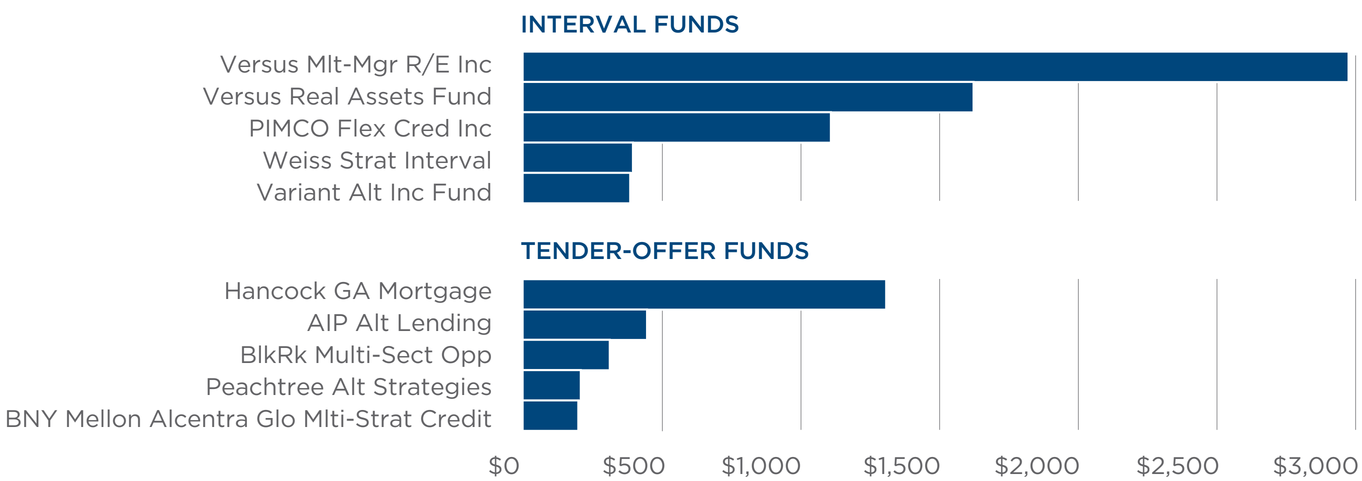
Source: FUSE Research Network, September 2020

There have been multiple successful product launches over the last three plus years.

- Four strategies with $1 billion or more in AUM
- Eight strategies with $250 million or more in AUM
- Eighteen strategies with $100 million or more in AUM

With a combined raise of $4.6 billion, Versus Capital, a boutique, real-asset focused firm, launched the two most successful strategies in the last two years. PIMCO and John Hancock each raised more than $1 billion since 2016.

EXHIBIT 5: TOP PRODUCT DEVELOPMENT FUNDS BY AUM ($ MILLIONS)



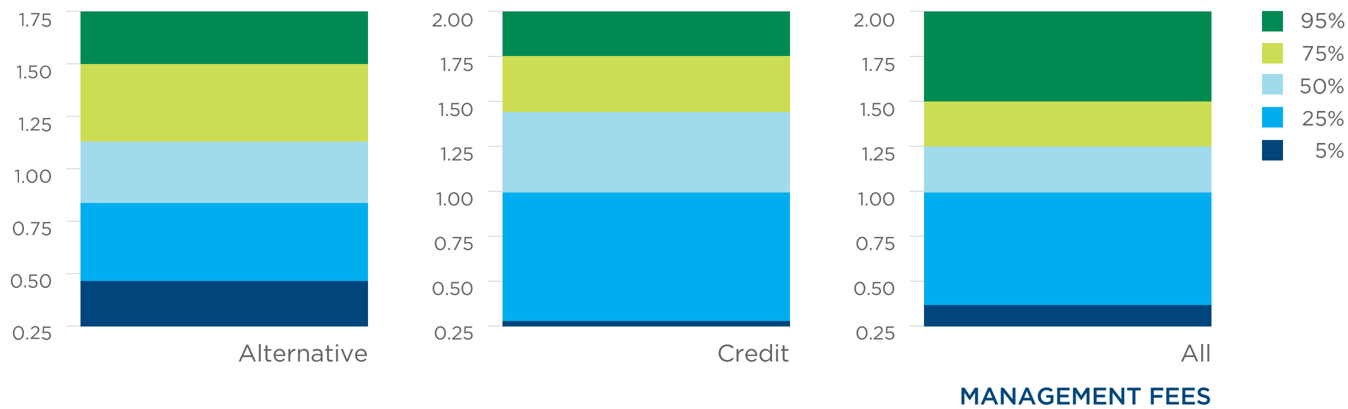
Source: FUSE Research Network, September 2020

PRICING

The structural advantages of unlisted CEFs—primarily limited investor liquidity—enable asset managers to develop sophisticated strategies that are not suited for traditional mutual funds or ETFs. Many of these strategies come at a price premium, with performance fees being the primary differentiator.

The median management fee for unlisted closed-end funds is 125 basis points. Credit strategies are slightly more expensive with a median management fee of 144 basis points versus 116 for alternative mandates. The management fees for unlisted CEF credit strategies are significantly higher than a traditional fixed-income mutual fund (45 basis points). However, many of the unlisted CEF products access areas such as private credit, which is unavailable in a traditional '40 Act strategy and comes at a cost.

EXHIBIT 6: MANAGEMENT FEES BY BROAD OBJECTIVE



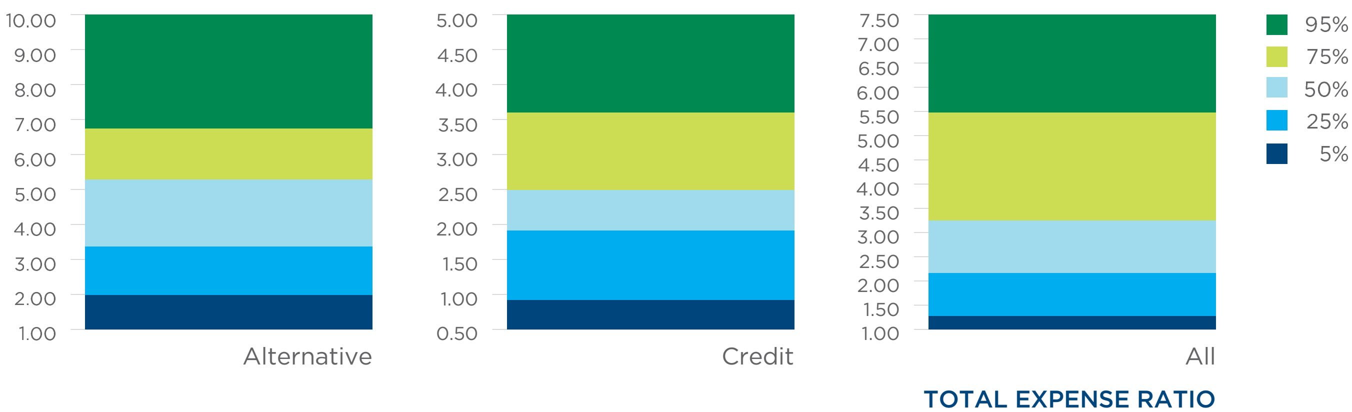
Source: FUSE Research Network, September 2020

The numbers increase dramatically when looking at total expense ratios (TER). As we previously mentioned, 61% of assets reside in accredited products. Many of these unlisted CEFs have performance fees. The median TER is 327 basis points, while funds in the 75th percentile charge 549 basis points. The median fee level is more than three times higher than the average active mutual fund (99 basis points).

Other TER stats about unlisted CEFs:

- Alternative unlisted CEFs
  - 25th percentile TER – 334 basis points
  - 50th percentile TER – 525 basis points
  - 75th percentile TER – 672 basis points
- Credit unlisted CEFs
  - 25th percentile TER – 190 basis points
  - 50th percentile TER – 253 basis points
  - 75th percentile TER – 362 basis points

EXHIBIT 7: TOTAL EXPENSE RATIO BY BROAD OBJECTIVE



Source: FUSE Research Network, September 2020

LIQUIDITY

As we previously mentioned, unlisted CEFs offer periodic liquidity to investors. Interval funds offer their shares continuously, generally calculate a daily NAV and periodically offer their shareholders a buy-back of a stated portion of their shares at NAV (e.g., monthly, quarterly, semi-annually or annually). Shareholders are not required to accept buy-back offers/sell their shares back to the fund; the buy-back is voluntary on the investor's part.

Tender-offer funds are different from interval funds since they are not required to establish a fundamental repurchase policy, but rather must to commit to the marketplace to buy back shares on some defined schedule and at some defined amount (most commonly quarterly tenders of up to 20% of outstanding shares).

Market corrections often shake investor confidence, which results in a shift to "safe" strategies. The S&P 500 declined 31% between the start of 2020 to the trough (March 23, 2020), as the market reacted to the global pandemic and market upheaval. In response, net outflows from active mutual funds and ETFs totaled $307 billion during March 2020.

It is imperative that asset managers address clients on ongoing challenges and how the investment process will navigate through differing market conditions. Unlisted CEF manufacturers are not an exception. Many of the top asset managers have proactively addressed the challenges of the global pandemic on their overall business and individual strategies.

The following are some examples of how firms are addressing market conditions:

- **Variant Alternative Income Fund** - Experienced positive net flows during 2Q20 and fulfilled 100% of client redemptions requests without proration.
- **Bluerock** - March press release ensured investors of the stability of the overall business.
- **Stoneridge** - Press release in March with a detailed business update.
- **PIMCO** - Detailed coverage in monthly investment commentary. Delivered a webinar updating the firm's Interval Fund Complex.
- **Griffin Capital** - Took decisive action within the portfolio to manage a volatile market including reduced equity beta, increased exposure to real estate debt, decreased exposure to cyclical sectors, no fund borrowings and increased liquidity. The fund addressed these actions in a fund commentary.

Overall, it appears that unlisted CEFs have been able to manage investor liquidity needs through a tumultuous market without compromising the stated mandate of the strategy—passing a significant test.

Note: buy-back and repurchase information is limited within the unlisted CEF space. Funds have the right to suspend shareholder liquidity and based on FUSE research, firms are progressing with business as usual.

Top Funds and Firms

CURRENT TRENDS

Like many emerging investment spaces, the asset base of unlisted CEFs is dominated by a minority of products. The top 10 funds account for 58% of AUM, while the top five comprise 35%. The CAGR for the top 10 products since 2016 is more than double the remaining unlisted CEF products. Meanwhile, the top three funds have grown at an annual rate of more than 40%. Overall growth within the unlisted CEF universe was 14.5% from 2016 through the first quarter of 2020.

EXHIBIT 8: TOP 10 LARGEST FUNDS BY AUM ($ MILLIONS)

FUND	FIRM	CATEGORY	TYPE	INVESTOR TYPE	INCEPTION DATE	1Q20	CAGR 2016 - 1Q20
ACAP Strategic Fund Management	SilverBay Capital	Equity Long/Short	Interval	Accredited	3/1/10	**$5,224**	42.5%
Partners Group Private Equity Fund (Master Fund), LLC	Partners Group	Private Equity	Tender	Accredited	12/31/16	**$5,019**	52.3%
Griffin Institutional Access Real Estate Fund	Griffin Capital	Real Estate	Interval	Low Minimum	6/30/14	**$4,149**	41.1%
Ironwood Institutional Multi-Strategy Fund LLC	Ironwood Capital	Multialternative	Tender	Accredited	1/1/11	**$3,880**	24.2%
SkyBridge Multi Adviser Hedge Fund Portfolios LLC	SkyBridge Capital	Multialternative	Tender	Moderate Minimum	8/16/02	**$3,568**	-13.0%
Stone Ridge Alternative Lending Risk Premium Fund	Stone Ridge Asset Management	Marketplace Loans	Interval	Accredited	5/23/16	**$3,480**	29.8%
Stone Ridge Reinsurance Risk Premium Interval Fund	Stone Ridge Asset Management	ILS/Catastrophe Bonds	Interval	Accredited	12/9/13	**$3,190**	-8.7%
Versus Capital Multi-Manager Real Estate Income Fund LLC	Versus Capital	Real Estate	Interval	High Minimum	1/29/18	**$2,965**	32.3%
Bluerock Total Income (plus) Real Estate Fund	Bluerock Fund Advisor	Real Estate	Interval	Low Minimum	10/22/12	**$2,455**	58.1%
Advantage Advisers Xanthus Fund LLC	Oppenheimer & Co	Equity Long/Short	Tender	Accredited	1/1/99	**$2,220**	23.1%
TOP 10						**$36,150**	**19.1%**
OTHER						**$26,080**	**8.9%**
GRAND TOTAL						**$62,230**	**14.5%**

Source: SEC Filings, FUSE Research Analysis

Other notes about the top 10 unlisted CEFs include the following:

- Six of the top 10 are structured as an interval fund
- Six of the top 10 products require investors be accredited
- Three of the top 10 products were launched in the last five years

Stone Ridge Asset Management continues to lead in unlisted CEFs with $7 billion in AUM; however, competitors are gaining ground. The firm currently controls 11.3% of unlisted CEF AUM, down from 19.4% as of 4Q18. Stone Ridge AUM witnessed a 0.6% CAGR, which is well behind most top 10 firms.

Among the top 10 firms, seven have grown faster than the universe average (14.5%), and five have seen AUM increase by more than a 40% annual rate since 2016. Bluerock Fund Advisor (58.1%), Partners Group (52.9%) and Versus Capital (51.2%) are the three fastest-growing firms among the top 10.

EXHIBIT 9: TOP 10 LARGEST FIRMS BY AUM ($ MILLIONS)

	TOTAL			INTERVAL		TENDER-OFFER	
FIRM	1Q20	MARKET SHARE	CAGR 2016 - 1Q20	1Q20	# OF FUNDS	1Q20	# OF FUNDS
Stone Ridge Asset Management	**$7,023**	11.3%	0.6%	$7,023	3		
SilverBay Capital Management	**$5,224**	8.4%	42.5%	$5,224	1		
Partners Group	**$5,083**	8.2%	52.9%			$5,083	2
Versus Capital	**$4,579**	7.4%	51.2%	$4,579	2		
Griffin Capital	**$4,506**	7.2%	44.8%	$4,506	2		
Ironwood Capital	**$3,880**	6.2%	24.2%			$3,880	1
SkyBridge Capital	**$3,666**	5.9%	-12.8%			$3,666	2
Bluerock Fund Advisor	**$2,455**	3.9%	58.1%	$2,455	1		
Oppenheimer & Co	**$2,220**	3.6%	23.1%			$2,220	1
PIMCO	**$1,743**	2.8%	n/a	$1,743	2		
TOP 10	**$40,379**		**21.1%**	**$25,530**	**11**	**$14,850**	**6**
OTHER	**$22,621**		**5.3%**	**$7,545**	**49**	**$14,306**	**55**
GRAND TOTAL	**$62,230**			**$33,074**	**60**	**$29,156**	**61**

Source: FUSE Research Network, September 2020

Manager Spotlight: Cliffwater LLC

BUSINESS STRATEGY

Founded in 2004, Cliffwater provides research and investment due diligence services for the full range of alternative investments seeking to achieve risk-adjusted returns beyond those found in traditional asset classes.

The firm has more than 40 employees and advises on over $70 billion. Cliffwater maintains robust research and coverage capabilities across the alternative investment spectrum.

INVESTMENT STRATEGIES

Cliffwater has one unlisted CEF (interval structure):

	CLIFFWATER CORPORATE LENDING FUND (CCLFX)
Mandate	The fund's investment exposure is focused on corporate loans including US middle-market corporate loans (otherwise known as 'direct loans'). The fund uses a "multi-manager" approach and the investment manager (Cliffwater) has selected multiple experienced sub-advisers to originate and manage portfolios of corporate loans
Inception	March 2019
AUM as of 6/30/2020	$340 million
Management Fee	100 bps
Expense Ratio	255 bps

Source: Cliffwater Semi-Annual Report for the Period Ended June 30, 2020

MANAGEMENT TEAM

The firm's two founders, CEO Stephen Nesbitt and Senior Managing Director Kathleen Barchick, shared 10 years together at Wilshire Associates. Nesbitt preceded Barchick at Wilshire, where he spent 14 years leading the consulting division. He also started and built the Wilshire asset management business. Barchick was a Managing Director and principal at Wilshire, working as a senior consultant.

TARGET MARKET AND DISTRIBUTION AND MARKETING EFFORT

- Three-person sales team with plans to add one additional FTE
- Multi-channel distribution effort with a focus on RIAs. Available on selected platforms: Schwab, Fidelity, TD Ameritrade, SEI, and Pershing.
- Four sub-advisors with differing lending focuses:
  - **Audax Group** – Diversified lender
  - **Benefit Street** – Core middle market
  - **Crescent** – Lower middle market
  - **BlackRock** – Deep fundamental credit

Outlook

We anticipate solid growth for unlisted CEFs. Since year-end 2014, unlisted CEFs have grown at an 11.9% annual rate. Over the last three years, annual growth has been in the double-digits, including 22% for 2019. Demand clearly exists for many of the specialized strategies and access to non-traditional asset classes offered by unlisted CEFs.

However, the industry is navigating a unique and highly challenging environment (capital markets, geopolitical, cultural, etc.). During the first quarter of 2020, AUM was down 4.7%.

Choppy markets wavered investor confidence, which is reflected in the significant net redemptions experienced by active ETFs and mutual funds during 2020 (net outflows of $238 billion through July 2020).

However, the most recent three months saw highly positive net flows driven by fixed income, which is a positive sign of investor confidence. We believe this is a macro trend for investment products.

Over the last three years, nearly 50 unlisted CEFs were launched. In addition, 40 remain in registration. Asset management leaders like Legg Mason, PIMCO, Carlyle, Lord Abbett and BlackRock launched multiple strategies in 2019. These firms bring not only investment acumen, but also powerful distribution engines to support these product launches. Many unlisted CEF strategies are complex mandates, requiring an ongoing sales and marketing effort from asset management firms. With a concerted commitment to messaging and education, we believe unlisted CEFs will continue to grow.

Methodology

- Underlying asset data and general vehicle attributes (e.g., strategy type, inception date, minimum investment, etc.) are collected by FUSE from audited annual report filings as well as unaudited semi-annual reports and quarterly schedule of portfolio holdings (Forms N-CSR/NCSRS/ N-Q). FUSE searched through all of the N-2 filings over the past five years in the SEC's Edgar database to identify funds for this paper. In addition, tender-offer filings were searched for the past 12 months to identify tender-offer funds that were launched more than four years ago.
- Term trust funds, non-traded REITs and BDCs are excluded from this analysis.
- Assets presented are net assets (i.e., do not reflect total Managed Assets for leveraged products).
- The periodic display of assets presented reflects a combination of assets under management (AUM) for the exact period where available as well as a proxy representing the closest historical period available (no more than one quarter ago). For example, if a fund has a fiscal year end in October, the October 2018 actual net assets would be used for the displayed aggregation of "2018 AUM".

UMB FUND SERVICES

UMB Fund Services is a leader in unlisted closed-end fund servicing, offering a unique servicing technology and a start-up platform both designed specifically for unlisted CEFs. UMB Fund Services offers a broad array of services for mutual funds and alternative investments, including turnkey solutions, to help our clients not only bring new products to market, but also to position themselves for future growth. Key services include fund accounting and administration, investor accounting and reporting, tax preparation, transfer agency, distribution*, custody** and cash management.** At UMB, we excel at adapting in an ever-changing market environment. This agility positions our operation to meet client needs now and in the future.

FUSE RESEARCH NETWORK (FUSE)

FUSE was launched in 2008 with the view that research and consulting support for asset managers has failed to evolve with the changing needs of the client. The future competitive environment will demand that clients make important business decisions within shorter and shorter timeframes.

In order to support clients in this setting, FUSE provides a dynamic research platform that covers our clients' current and future decision areas (strategic and tactical). Our goal is to become an invaluable business partner through the delivery of highly informed and forward-looking recommendations that are among the critical inputs our clients need to optimize results.

* *Service provided by UMB Distribution Services, LLC*
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