Understanding Interval Funds

What Is an Interval Fund?

Interval funds are professionally managed, pooled investment vehicles that combine attractive features of both closed-end funds and traditional open-end funds.

Open-end funds pool money from many investors and invest in a portfolio of securities, such as stocks and bonds, that is designed for a specific investment objective. Ownership of the portfolio is available to the public through shares that can be purchased or sold, hence the name “open-end.”

Closed-end funds also pool money, however they do not typically redeem shares at the option of the shareholder. Rather, closed-end fund shares usually trade on the secondary market. This structure provides asset managers with a stable amount of capital to invest in less liquid markets, such as real estate, venture capital, and structured credit.

Interval funds share characteristics of both closed-end and open-end funds. They offer limited liquidity to shareholders by offering to repurchase a limited amount of the shares at certain “intervals,” typically every three months. Investors can purchase shares at any time, though, just like they would in an open-end fund.

Interval Funds Offer Access

Interval funds provide individual investors access to a diversified portfolio of public and private securities. While interval funds offer many of the benefits of an open-end fund, the benefit that sets them apart is the ability to allocate more than 15% of their portfolio to private securities—a strategy institutional investors have utilized for years to:

- Help reduce volatility.
- Potentially increase income.
- Lower correlation to the public markets.

	Open-End Mutual Fund	Interval Fund	Closed-End Fund
Access to private investment assets	Up to 15%	✓	✓
Direct offering of shares by fund at net asset value (NAV)	✓	✓	IPO, then structured and traded on a stock exchange
Ability to continually offer shares	✓	✓	No
Direct redemption (repurchase)	✓	✓ At specific intervals	Shares are sold in the secondary market
Redemption at NAV	✓	✓	No: shares sold at market price

Attractive Features of Interval Funds

Interval funds provide many of the key features of both closed-end funds and open-end funds including:

Portfolio Management Flexibility

Ability to invest in private securities alongside publicly traded securities that work together to potentially provide strong risk-adjusted returns and periodic liquidity.

Transparency

Highly regulated and subject to disclosure and reporting requirements. NAV is reported daily. Purchase and redemption price are both at NAV.

Accessibility

Open to all types of investors–from individuals to institutions and retirement plan accounts.

Simplicity

As easy as buying mutual funds.

Multiple Share Classes

Different share classes are available to help meet the varying investment objectives of individual investors.

Low Minimums

Typically require a low minimum investment relative to a similar portfolio that includes private as well as public securities.

Ongoing Offerings

Continual share offerings enable investors to purchase periodically over time, which may be more convenient.

Periodic Liquidity

Periodically offers to repurchase a specific percentage of shares from shareholders at specified intervals of time.

1099 Reporting

Simplified reporting and tax process. No K-1s.

How Interval Funds Operate

The Securities and Exchange Commission (SEC) is the primary regulator of investment companies, including interval funds. Interval funds are regulated by the SEC mainly pursuant to the rules adopted under the Investment Company Act of 1940, as amended.

1 **YOU**
The Investor.

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2 **PRINCIPAL UNDERWRITER**
Sells fund shares directly to the public or through other firms, for example a broker-dealer.

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3 **TRANSFER AGENT**
Executes shareholder transactions, sends account statements and other documents to shareholders.

4 **THIRD-PARTY CUSTODIAN**
Holds the interval fund's assets to protect shareholder interest.

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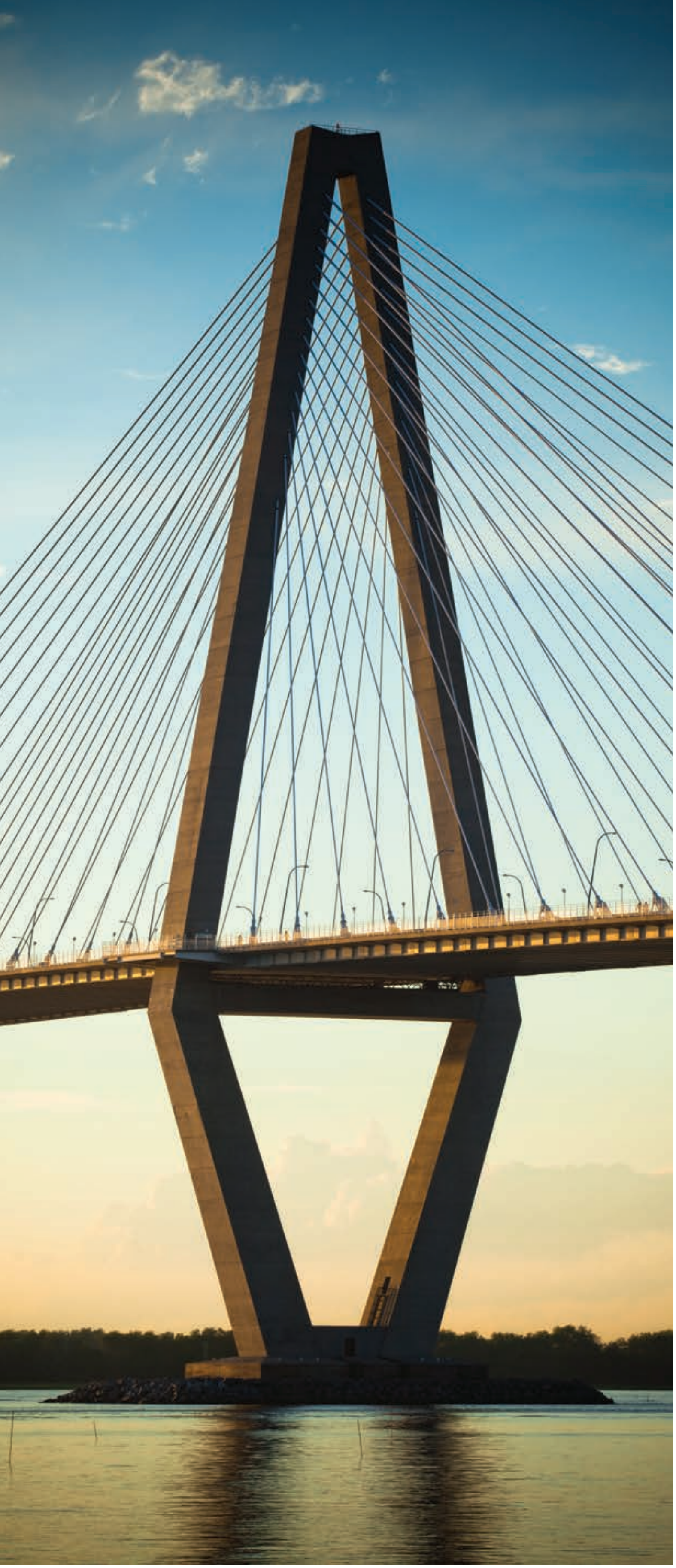
5 **THE INVESTMENT ADVISER**
Manages the interval fund's portfolio according to the objective outlined in the fund prospectus.

AN ADMINISTRATOR
Oversees the operational performance ensuring it complies with regulatory requirements.

GOVERNANCE
Is provided by a board of trustees to help ensure money is being managed per the fund's stated objectives. An independent accounting firm performs annual audits and certifies the fund's financial statements.

Diversification does not eliminate the risk of experiencing investment losses. There is no assurance that the investment process will consistently lead to successful investing.



Although all interval funds share this basic framework, **not all interval funds are created equal.** Different funds may have different investment objectives and underlying securities. Some key items to consider include:

STRENGTH OF THE INVESTMENT ADVISER

Research the fund's investment adviser to determine their strength and reputation. It may be helpful to consider assets they have under management (AUM), experience in the interval funds market, and overall performance of the interval fund.

SELECTION OF SUB-ADVISERS

Investment advisers that manage interval funds may engage sub-advisers to assist in managing the portfolio. Sub-advisers may provide additional investment expertise as it relates to the interval fund's portfolio. Review the selection of sub-advisers the same way you would the strength of the investment adviser. Highly reputable sub-advisers add value that may potentially allow for strong risk-adjusted returns.

QUALITY OF INVESTMENTS AND STRATEGIES

Some interval funds take an institutional approach to portfolio management and adapt it for the unique needs of the individual investor. This approach helps ensure access to higher-quality assets with skilled managers, who have the expertise to select effective investments and implement a cohesive strategy.

Key Terms for Performance Measurement

The following terms may be helpful when gauging the performance of an interval fund.

Alpha	Alpha is a measure of risk-adjusted return implying how much a fund/manager outperformed its benchmark, given its risk profile.
Annualized Return	Annualized return is calculated by annualizing a fund's cumulative return (i.e., adjusting it for a period of one year). Annualized return includes capital appreciation and assumes a reinvestment of dividends and distributions.
Beta	Beta is a measure of systematic risk (volatility), or the sensitivity of a fund to movements in a benchmark. A beta of 1 implies that you can expect the movement of a fund's return series to match that of the benchmark used to measure beta. A value of less than 1.0 implies that the fund is less volatile than the benchmark, and a value greater than 1.0 implies that the fund is more volatile than the benchmark.
Correlation	A statistical measure of how two securities move in relation to each other. A correlation ranges from -1 to 1. A positive correlation close to 1 implies that as one security moves, either up or down, the other security will move in "lockstep," in the same direction. A negative correlation close to -1 indicates that the securities have moved in the opposite direction. If the correlation is 0, the movements of the securities are said to have no correlation; they are completely random.
Cumulative Return	Cumulative return is the compound return of an investment. It includes capital appreciation and assumes a reinvestment of dividends and distributions.
Sharpe Ratio	The Sharpe ratio measures risk-adjusted returns by calculating the excess return (above the risk-free rate) per unit of risk (standard deviation). The higher the ratio, the better the risk-adjusted returns.
Standard Deviation	Standard deviation measures the average deviations of a return series from its mean, and is often used as a measure of volatility/risk. A large standard deviation implies that there have been large swings in the return series of the manager.
Total Return	When measuring performance, the actual rate of return of an investment or a pool of investments over a given evaluation period. Total return includes interest, capital gains, dividends and distributions realized over a given period of time.
Yield	The income return on an investment. This refers to the interest or dividends received from a security and is usually expressed as an annualized percentage based on the investment's price.

This is not intended to be a comprehensive list of key terms as it relates to performance evaluation.

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An investment in interval funds involves risk, including loss of principal.

Investors should carefully consider the investment objectives, risks, charges and expenses of an interval fund. This and other important information about the fund is contained in a prospectus, which can be obtained by contacting your financial advisor. A prospectus should be read carefully before investing.

Learn more: Talk with your financial advisor to learn more about interval funds and for help selecting funds that may complement your portfolio.

Not a deposit	May lose value	No bank guarantee
Not insured by the FDIC, NCUA or any other government agency		

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