



WHITEPAPER

# Navigating Interval Funds: Bringing Alternative Strategies to the Mass Affluent Market

The Interval Fund is a pooled investment vehicle registered under the Investment Company Act of 1940. Like open-end mutual funds, interval funds provide for the continuous sale of shares across several distribution channels, including retail, with the portfolio management flexibility of closed-end funds. Interval funds typically employ sophisticated strategies that include illiquid assets – strategies that otherwise might be available only to institutional investors. Interval funds limit the frequency and size of redemptions by investors to a set percentage of the portfolio offered at regular periodic intervals. This, we believe, helps drive long-term investment discipline for both the portfolio manager and investor.

Mass affluent<sup>1</sup> retail investors are looking for income-generating strategies that can also deliver alpha, with returns that are not correlated to the broader markets, and are willing to live with less frequent liquidity without giving up transparency. In this paper, we also examine four other product structures that strive to deliver sophisticated strategies and uncorrelated returns for the mass retail investor.

- Liquid alternative '40 Act mutual funds
- Traditional “closed-end” funds (CEFs)
- Tender offer funds
- “Non-traded” funds, in particular unlisted Business Development Companies (BDCs)
- and Non-traded Real Estate Investment Trusts (NTRs)

This paper will further outline areas of focus that asset managers and industry participants need to address for interval funds’ continued growth and viability:

- Strategy and Brand Fit
- Distribution and Advisor Education
- Operational Considerations
- Pricing and Transparency

The significant growth and momentum of interval funds as well as new entrants from both the traditional asset management sponsors and private equity, credit and real estate fund sponsors shines a light on the future of this category. It merits consideration from asset managers, advisors and broker/dealers looking to meet investor demand for greater alternatives exposure. However, these funds pose a number of unique operational considerations, which the industry will need to address in order to drive broader utilization and sustained growth.



## Defining the Landscape: Understanding Interval Funds

Most retail investors are familiar with “open-end” mutual funds that offer continuous purchases, price daily with a transparent Net Asset Value (“NAV”), and redeem shares whenever investors wish to sell. Open-end funds are not listed on an exchange and have no restrictions on the amount of shares the fund manager will issue.

Less known to the retail investor are tender offer funds interval funds. Tender offer closed-end funds (CEFs) are continuously offered and do not trade on an exchange. These funds provide the fund manager with greater discretion on the timing of redemptions allowing a particular underlying investment to play out (in some cases can be longer than a year). The interval fund is a hybrid between a tender offer CEF and an open-end mutual fund: it offers continuous purchases, typically strikes a daily NAV, but only redeems shares during pre-determined intervals, usually quarterly. Most interval funds adopt a fundamental policy under 23c-3 of the Investment Company Act of 1940 whereby the Fund must offer to repurchase at least 5% and up to 25% of its outstanding shares quarterly at NAV.

In recent years, a number of market forces converged to create a compelling opportunity for interval funds:

- Investors are showing an increasing appetite for alternative asset class structures, for portfolio diversification, and returns not correlated to equity markets.
- Increasingly, asset managers are targeting the mainstream, mass affluent retail segment, with alternative investment products.
- Private wealth retail allocations to alternatives have increased from traditional 60/40 to something more resembling 40/30/30 including a blended sleeve of Infrastructure, Real Estate & Private Credit/Equity.
- One aspect of investing in registered alternatives is having access to a product structure (wrapper) that does not require daily liquidity (or redemption on demand), while having some investor protections in place.
- While other more traditional investment vehicles have faced redemption pressure & fee compression, this corner of the market has seen asset growth and stabilized management fees.

## Product Structures for Illiquid Investments

First, let’s look at the four primary product structures we are comparing Interval Funds to.

- 1 Liquid alternative ‘40 Act mutual funds (or liquid alternatives) appeal to retail investors by providing access to hedge fund-like strategies with transparency and liquidity. Liquid alternatives are “open-end” mutual funds that offer continuous purchases (known as continually-offered funds), price daily with a transparent Net Asset Value (NAV), and redeem shares whenever investors wish to sell. They are not listed on an exchange. However, investments in illiquid assets are limited to 15% of a fund’s portfolio.
- 2 Traditional “closed-end” funds (CEFs) seek to implement strategies that are generally illiquid and often play out over a longer period of time by not allowing intraperiod redemptions. Traditional CEFs raise a fixed amount of capital through an IPO upon commencement. The CEF then trades on an exchange, much like a stock, and often at a discount to NAV. After an extremely challenging period from 2013 to 2018, CEFs are showing resilience again, fueled by a new, more shareholder-friendly structure that limits the life of a fund to 12 years.
- 3 Tender offer funds and interval funds offer a balance between illiquid non-traded funds and open-end mutual funds. For tender offer CEFs, the timing of redemptions is at the discretion of the fund board, often quarterly but not guaranteed. The interval fund is a hybrid between a tender offer CEF and an open-end mutual fund: redeeming shares only during pre-determined intervals (usually quarterly) with restrictions in the amount an investor may sell.
- 4 “Non-traded” funds<sup>2</sup> fall on the extreme end of liquidity – very illiquid over long periods of time – but are designed to deliver superior returns uncorrelated to the equity markets. The two specific structures that are relevant to our discussion are unlisted Business Development Companies (BDCs) and Non-traded Real Estate Investment Trusts (NTRs). Such structures offer continuous purchases, are not traded on an exchange, offer regular NAV pricing (but less transparency), and generally can only be redeemed over long periods of time.

Two underlying premises are shared by continuously offered CEFs and non-traded product structures: the ability to invest in illiquid assets and, in general, not being burdened by the “on demand” liquidity requirements of the Investment Company Act of 1940 (‘40 Act).

## Comparing Product Structures: Characteristics and Features

Feature/ Characteristic	Interval Fund	Liquid Alternatives Fund	Closed-end Fund (CEF)	Tender Offer Fund	Non-Traded Fund
Investment Type	<b>Closed-end</b>	Open-end	Closed-end	Closed-end	Closed-end
Offering Period	<b>Continuous</b>	Continuous	One-time (through IPO and Secondary Offerings)	Continuous	Continuous
Listed on Exchange	<b>No</b>	No	Yes	No	No
Pricing Model	<b>NAV</b>	NAV	Market	NAV	NAV
Valuation Frequency	<b>Usually daily; weekly minimum</b>	Daily	Daily	Periodically, as needed	Periodically, as disclosed by prospectus
Liquidity Timing	<b>Usually quarterly (or, as disclosed by prospectus)</b>	Daily, through share repurchases	Daily, as permitted on exchange	Periodically, at sponsor's discretion	Periodically, as disclosed by prospectus
Direct Redemption	<b>Yes, at intervals</b>	Yes	No	By tender offer	Yes, but limited
Taxation	<b>1099 distributions and capital gains</b>	1099 distributions and capital gains	1099 distributions and capital gains	1099 distributions and capital gains	1099 distributions and capital gains
Access to Private/ Illiquid Assets	<b>Some limitations*</b>	Up to 15%	Minimal limits	Minimal limits	Generally, not limited
Leverage Limit	<b>Not to exceed 33% of gross asset value</b>	Not to exceed 33% of gross asset value	Not to exceed 33% of gross asset value	Not to exceed 33% of gross asset value	Generally, not restrictive; but some limits
Minimum Investment Threshold	<b>Determined by sponsor</b>	None	Determined by sponsor	Determined by sponsor	Determined by sponsor

**Source:** SS&C. **Some limitations\*:** Interval funds must have liquid assets available to meet upcoming repurchase offers (generally 5% of the fund). The SEC has suggested certain additional limitations on investments in private fund structures be imposed on interval funds (at time limiting such investment to 15%-35% of the portfolio). However, such limits have not been uniformly enforced, nor is there clear support for these limits in the regulations applicable to interval funds.

## Comparing Tender and Interval Fund Structures

Both the tender offer and interval fund structures are registered under the '40 Act. Both can choose not to register under the Securities Act of 1933 (SEC '33 Act) if they are offered only privately to accredited investors<sup>3</sup>. In practice, however, most tender offer and interval funds are designed to appeal to retail investors and both usually register under the SEC '33 Act. The two structures share several features, including:

- New subscriptions can be continuously offered
- No requirements for annual shareholder meetings
- Access to illiquid investments with no minimal limits
- Ability to offer multiple share classes and feeder funds<sup>4</sup>

While some similarities there are a few differences to note:

- **NAV calculation frequency:** For tender offer funds, shares have to be valued at NAV on days that investors are permitted to buy and sell shares, as determined by the sponsor. For interval funds, shares must be valued at NAV on days that investors are permitted to purchase shares, but in no case less than weekly (and often daily<sup>5</sup>), and always for the five days prior to each repurchase offer.

- **Liquidity provisions or terms of redemption:** Tender offer funds offer liquidity to investors pursuant to Section 23(c)(2) of the '40 Act. They must also comply with the requirements of Rule 13e-4 under the Securities Act of 1934 (SEC '34 Act). In contrast, interval funds must engage in periodic repurchases at stated monthly, quarterly, bi-annual or annual intervals pursuant to Rule 23c-3 of the '40 Act. The repurchase offer amount must be at least 5% and not more than 25% of the common stock outstanding. Tender offer funds have generally been less appealing than interval funds since liquidity is not guaranteed and is offered solely at the determination of the fund. That could change as the private auction funds, considered a privately placed version of exchange-traded funds (ETFs) for illiquid assets (outside the scope of this paper), become more popular with affluent investors.
- **Offering documents:** At launch, both tender offer funds and interval funds must file a registration statement (Form N-2) with the SEC. Additionally, as each fund is its own legal entity, both tender offer and interval funds are required to be seeded by at least \$100k of seed capital under Section 14(a) of the '40 Act.
- **Registration statement updates:** Traditional CEFs are not required to provide annual updates for registration statements, so long as the sponsor updates shareholders with relevant information in the fund's annual report.

However, interval and tender offer funds are required to file updated registration statements annually.

## Comparing Alternative Investment Structures: Regulatory Framework

Feature/Characteristic	Interval Fund	Liquid Alternatives Fund	Closed-end Fund (CEF)	Tender Offer Fund	Non-Traded Fund
'40 Act Compliant?	Yes	Yes	Yes	Yes	No for NTRs; Yes for BDCs
Who can invest?	<b>Any investor, if also SEC '33 Act registered</b>	Any investor	Any investor	Any investor, if also SEC '33 Act registered	Accredited investors & qualified purchasers
Regulations governing Redemptions	<b>Rule 23c-3 of the '40 Act</b>	Section 22(e) of '40 Act	Trades on secondary market; may conduct tender offer under '34 Act	Section 23(c)(2) of '40 Act & Rule 13e-4 of the SEC '34 Act.	Policy determined by the manager of the fund
Regulations on Valuation Frequency	<b>Rule 23c-3 of the '40 Act</b>	Rule 22c-1 of '40 Act	Trades on secondary market; generally calculates NAV daily	Only on days that investors are allowed to buy/sell	Only on days that investors are allowed to buy/sell
New Fund Launching and Registration	<b>Each fund is separate legal entity; seeded under Section 14(a) of '40 Act</b>	Section 18(f)(2) of '40 Act	Each fund is separate legal entity; seeded under Section 14(a) of '40 Act	Each fund is separate legal entity; seeded under Section 14(a) of '40 Act	Private offering memorandum; BDCs must file for registration (N-2)
Subject to FINRA Rule 5110 Reg Statement Review?	No	No	Yes	Yes	No for NTRs; Yes for BDCs
How is Registration Statement updated?	<b>Registration statement updates may be automatically or immediately effective under Rule 486</b>	Rule 485 of the '33 Act	Rule 462 under the '33 Act	Registration statement updates may be automatically or immediately effective under Rule 486	BDC registration statement updates may be automatically or immediately effective under Rule 486
Multiple Share Classes allowed?	<b>Yes, but exemptive relief required (Rule 18f-3 does not apply)</b>	Yes, under Rule 18f-3 of '40 Act	Yes, but exemptive relief required (Rule 18f-3 does not apply)	Yes, but exemptive relief required (Rule 18f-3 does not apply)	Yes
Permitted to charge Distribution Fees?	<b>Rule 12b-1 fees allowed; relief under Rule 17d-3 must be requested</b>	Yes, under Rule 12b-1, and Rule 17d-3 of '40 Act	Rule 12b-1 fees allowed; relief under Rule 17d-3 must be requested	Rule 12b-1 fees allowed; relief under Rule 17d-3 must be requested	Not restricted
Permitted to charge Performance Fees?	<b>Can be tied to income generation; for capital gains/losses only if limited to "qualified clients"</b>	Fulcrum fees under Section 205(b)(2) of '40 Act	Can be tied to income generation; for capital gains/losses only if limited to "qualified clients"	Can be tied to income generation; for capital gains/losses only if limited to "qualified clients"	Yes, under Rule 205-3 of '40 Act

**The pros and cons of tender offer and interval funds are usually in the eye of the beholder.** However, the selection of the optimal structure needs to be carefully weighed against the investment strategy being deployed, the distribution of the product and the needs of the target shareholders. While tender offer funds have stated liquidity schedules, their ability to suspend repurchases can be a concern for broker/dealers and their advisors. The interval fund may be a more attractive product structure, not only for illiquid asset investment, but potentially for active alpha generation.

### Pros and Cons of Retail Alternative Investment Wrappers

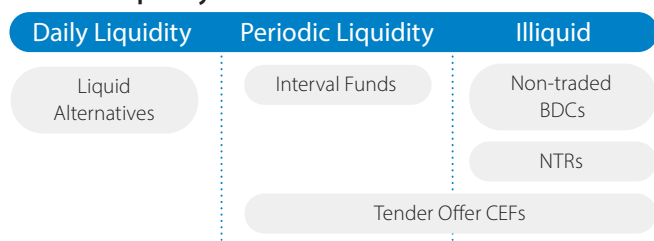
There are several ways to assess the pros and cons of retail alternative product structures, knowing full well that each structure ultimately has its own unique reward and risk profile and delivers on some of the key benefits desired from alternative investments.

From the examination that follows, the interval fund structure may offer the optimal mix of periodic liquidity, relatively uncorrelated returns and a tangible liquidity premium, while also being asset-agnostic. The biggest challenges for the interval fund wrapper are access to capital and potential cost structure.

**Liquidity and Access to Capital:** Liquid alternatives provide daily liquidity, but at the price of restricting the portfolio to 15% of illiquid investments under the '40 Act. On the other end of the spectrum, unlisted BDCs and NTRs are relatively illiquid and require long holding periods. Interval funds fall in the sweet spot of periodic liquidity predetermined in the offering prospectus. And tender offer funds lie somewhere between periodic liquidity and being somewhat illiquid.

## Alternative Structures by Liquidity

### Relative Liquidity



Source: SS&C Research, Analytics, and Consulting analysis

Under Rule 23c-3 of the '40 Act, an interval fund is required to offer to repurchase shares equal to a minimum of 5% of total fund assets at the repurchase window. The fund board has the discretion to offer to repurchase up to 25%, although repurchases at that level of liquidity would be limited by the fund's illiquid investments. The challenge occurs when the aggregate repurchase orders for a particular offer comes in above the amount offered.

We have seen other periods, more recently where redemption pressure went above funds threshold (and 25%). This simply underscores the objective of the limit on repurchases at the periodic liquidity window, which is to reduce the forced sale of illiquid assets when a large number of investors want to exit at once. In fairness, not all mass affluent investors will be comfortable with an investment vehicle that does not permit 100% access to capital – even if they can handle the interval liquidity window. Thus, a very important factor for advisor and investor education when considering investments in interval funds.

**Non-Correlated Returns:** One of the attractive aspects of being a non-traded product structure is a much reduced correlation to equity capital markets. Generally, liquid alternatives are highly correlated to equity market returns, while non-traded investments have lower correlations.

**Liquidity Premium:** This term is used to explain the difference between two types of investments that have all the same qualities except liquidity. Non-traded investments generally enjoy a liquidity premium – across time and through market cycles – compared to similar strategies deployed in a liquid alternatives wrapper.

**Pricing and Cost of Distribution:** Beyond the impact of fiduciary regulation, the broader asset management industry has experienced a laser-like focus on fees, including ongoing distribution fees. Historically, non-traded funds have been associated with higher fees, with less transparency. Thus, in an era of greater awareness of fiduciary responsibility, these products will likely not be favored by some distributors.

Given the increased interest in recent years for interval funds and tender offer funds, firms need to carefully evaluate their targeted distribution channel and any associated fee sensitivities. For example, there is a major trend in the RIA channel for no-load share classes. Traditional transactional share classes with front- and back-end load fees will likely be a major hindrance to distribution in this channel. Other charges like redemption fees are also a less acceptable option in the intermediary space. Clearly, fee models should be consistent with the expense structure of the product wrapper.

**Asset Specificity:** NTRs are focused on real estate investments. BDCs are focused on middle-market private debt (and some distressed debt). Master Limited Partnerships or MLPs, a publicly-traded structure (outside the scope of this paper), are focused on the energy sector. Liquid alternatives (mutual funds), interval funds, and tender offer CEFs are really the only product structures that are generally asset-agnostic. That suggests that these structures have the greatest investment strategy flexibility.

### Relative Liquidity:

- Daily Liquidity Periodic Liquidity Illiquid
- Liquid Alternatives Interval Funds Non-traded BDCs
- NTRs
- Tender Offer CEFs

## Operational Challenges for Interval and Tender Offer Funds

A substantial body of literature exists detailing the processes for organizing and launching a fund. Prospective interval fund sponsors should work closely with a legal firm that is experienced with SEC-registered interval and tender offer funds. Typically, the process for new SEC registrants can last four to six months.

### Raising Capital through Multiple Sales Channels

Ease of operations can result in the need for different operating models for different distribution partners; these models can vary depending on the characteristics of the fund. An experienced, SEC-registered transfer agent will provide services and support that enable you to focus on performance.

When onboarding daily NAV interval funds, financial intermediary firms prefer to submit subscriptions using DTCC's Fund/SERV which offers industry-standard trade submission and automated net settlement. This service is currently incorporated into most dealer/custodial back-office operations. DTCC's related Networking service enables funds and firms to keep investor account positions in sync and offers distribution settlement through automated net settlement.

When a fund does not have a daily NAV, Fund/SERV is not an option; however, DTCC's Alternative Investment Platform (AIP) is available for illiquid products and offers purchase orders with automated settlement. A few firm back-offices have built the registration with order capabilities for investor subscriptions.

Rather than using an industry-provided service, some broker/dealers manage monthly subscriptions through direct communication using a combination of the subscription documents and sales logs. This introduces operational challenges of managing direct interfaces for efficiency in exchanging data and reconciling in-good-order subscription documents to final sales logs each month.

Third-party Fintech firms have entered the operational ecosystem by offering subscription services to RIAs. Operational needs to support investor subscription and purchase processing initiated by these firms can be complex. The fiduciary responsibilities remain with the RIA and custodial firms need to maintain control of qualified retirement accounts. Having capabilities to communicate and interact with multiple parties pre- and post-subscription is essential.

### Supporting Periodic Repurchase and Tender Offers

As with subscriptions, the characteristics of the repurchase or tender offer, as defined by the fund prospectus, will drive operational set up, investor account processing, and settlement. An experienced fund administrator and registered transfer agent will provide services and support solutions that support your prospectus rules, including automated calculation of proration when needed and automated, aggregated settlement to broker/dealer/custodians when applicable.

- Interval funds must file a Notification of Repurchase Offer with SEC for each repurchase event, an experienced fund administrator will file the necessary SEC form.
- Repurchase/Tender offer notification requires coordination between multiple parties, such as legal, transfer agent, and print media providers. Some broker/dealer/custodians require a calendar ahead of time.
- Daily NAV interval funds on Fund/SERV support "redemption" orders. Historically, to support a daily-NAV interval fund, Fund/SERV redemptions are accepted by the fund only on the repurchase date. This requires attention to the fund attributes on the transfer agent system and requires close communication with the broker/dealers/custodians to ensure they have the correct trade dates and to understand the volume of transactions expected on the repurchase date.

- More recently, the DTCC has enhanced Fund/SERV to enable future-dated redemptions for Interval funds, and your Transfer Agent should be positioned to accept these transactions. The latter model has less manual intervention and enables centralized reporting throughout the offering period, up to trade date. Since not all firms will be ready to use the latest enhancement at the same time, it's necessary to have the means to support both Fund/SERV redemption models for Interval funds.
- For Tender offer funds where Fund/SERV is not an option, DTCC AIP supports future dated redemptions.
- As with subscriptions, some broker/dealers manage repurchase requests through direct communication using a combination of the completed request documents, data files, and third-party portals.
- Having centralized reporting of repurchase/tender requests is essential to understand the total being requested and whether the available threshold can be extended, e.g., from 5% to 7%, or if proration is appropriate.
- Settlement of the repurchase/tender transactions will require the support of multiple payout methods, including DTCC, but also direct to broker/dealer, direct to custodian, or direct to investor.

### Market Opportunity for Interval Funds

As of 2023, there were 93 active interval funds with an AUM eclipsing \$76.6 billion. Provided below is further detail of asset class composition:

- 41 of the active interval funds are fixed income/credit funds with \$41 billion in assets.
- 20 funds are real estate focused with \$20 billion in assets.
- Insurance-linked securities funds and private equity/venture capital make up most of the rest of the universe with 5 funds apiece and \$2 billion and 1.5 billion in assets respectively.
- \$76.6 billion in assets.
- 34 new interval funds were registered in 2023 with private credit leading the way with 16 funds registered.

Fundraising slowed in 2023 as market volatility combined with interest rate increases slowed new investment and grew redemption activity, particularly among real estate interval funds. Interval funds raised about \$16 billion in 2023. That compares with 2022 in which interval funds raised \$23.5 billion. Despite the current headwinds, the interval fund market remains attractive for asset managers. The private wealth and mass affluent business segments are growing and the demand for unique and innovative products that provide access to private markets will continue to support the long-term growth of interval funds.

## Recommendations for industry players

Asset managers will face unique hurdles in adopting this product structure. For interval funds to achieve sustainable growth, there are four basic challenges that need to be addressed:

**Strategy and Brand Fit:** A closed-end product structure will need to integrate with the firm's broader product and distribution strategy. A primarily mutual fund-focused organization will need to carefully consider how the product fits in and whether its distribution staff is trained and incentivized to sell the new product. These products require focus – otherwise they can get subsumed in the broader product line.

For firms with an alternatives pedigree and brand recognition in the retail market, the launch of an interval fund or tender offer CEF should be perceived by investors as in keeping with the firm's profile. While the structure may be unfamiliar to many advisors, an asset manager's focus on illiquid and alternative investment strategies should make communication easier and more logical. Indeed, advisors working with these firms should better understand why intermittent redemption is necessary. It's not surprising most firms that have launched continuously offered closed-end funds are known for their alternative investment offerings.

**Distribution and Advisor Education:** Understanding the advisor and broker/dealer decision-making process is critical in the sale of any financial product. Sponsors of interval funds need to ensure that their national account, sales, marketing and product teams are working together to educate and engage advisors.

Launching an interval fund requires an extraordinary distribution effort, given the somewhat limited product structure knowledge among advisors. Interval funds and tender offer CEFs are more complicated to explain compared to their open-end mutual fund and ETF counterparts. The biggest

issues are liquidity intervals, the redemption process (with pro-rating, if needed), and access to capital (investors may not be able to sell their entire position during a single redemption window). Advisor education campaigns that transparently explain these processes and promote the notion of the liquidity premium will help set the right expectations for long-term thinking advisors and investors.

**Solving Operational Considerations:** As noted earlier, firms face the challenge of fitting interval funds and tender offer CEFs on the "right" transaction processing platform (Fund/ SERV vs. AIP). The redemption process and intermittent liquidity do not fit seamlessly into daily trading operations. SS&C focuses on providing solutions that affords asset managers and dealers the flexibility to choose the best DTCC platform for their specific product offerings. At SS&C, we created and offer both AIP and Fund/SERV solutions to support delayed tender and proration activities. Broad based market adoption for continuously offered CEFs will depend on resolving operational issues.

**Pricing and Transparency:** Operating an interval fund or tender offer CEF is likely more costly than operating a liquid alternatives fund. For asset managers from an alternatives background, the move to implement similar strategies (for example, real estate or private debt) in a continuously offered CEF may be a wash on the expense side. Still, firms that are getting into the interval fund wrapper should not expect that they can charge a premium compared to active mutual funds. Fees are under a great deal of scrutiny from investors. Finding an equitable balance will be paramount for market adoption. Far too often, both the structure and the explanation of the structure (for example, subscription/redemption periods) are buried in legal documents and not easily found on a firm's website. Continuously offered CEF firms need to be very clear on all features, fees and the liquidity of the product. Transparency on these details assists in education and reduces the risk of surprises among advisors.

### For More Information:

SS&C, as a market leader within the interval fund space, has created a platform to solve for the unique nuances outlined in this paper. SS&C's history as a leading alternatives fund administrator coupled with our distribution and operational expertise supporting unique broker dealer and custodian tender requirements, SS&C has solutions that allow asset managers to focus on the alternative investment strategies this wrapper supports.

To gain a further understanding of interval funds, as well as the operational requirements for fund formation, ongoing administration and the opportunities interval funds may provide, contact your SS&C representative or visit [ssctech.com](https://www.ssctech.com).

- <sup>1</sup> Most wealth management firms and the large wirehouse firms have investable assets (IA) benchmarks for defining the “mass affluent” client (more than \$50k, \$100k, or even \$250k of IA), as opposed to the “true retail” client with minimal investable assets (under \$50k of IA). For our purposes, we will simply refer to mass affluent as the broad retail client segment: one who is not an institutional investor and not an “accredited investor” under the ‘40 Act, but with more than \$100k in IA.
- <sup>2</sup> Hedge Funds and Private Equity Funds would also fall into the technical definition of “non-traded funds”. However, for the purposes of this white paper, we are focused on the retail investment market.
- <sup>3</sup> An accredited or sophisticated investor is an investor with a special status under financial regulation laws. The definition of an accredited investor (if any), and the consequences of being classified as such, vary between countries. Generally, accredited investors include high-net-worth individuals, banks, financial institutions and other large corporations, who have access to complex and higher-risk investments such as venture capital, hedge funds and angel investments.
- <sup>4</sup> The issuance of various share classes requires the fund or investment manager to obtain exemptive relief from the SEC.
- <sup>5</sup> It should be noted that if an Interval Fund does not have daily pricing it will not be made available on DTCC’s National Securities Clearing Corporation (NSCC) platform and therefore will not be available for retail investors.
- <sup>6</sup> Understanding Closed-End Interval Funds, Sean Graber – Partner, Thomas S. Harman – Partner, David W. Freese – Associate, Morgan Lewis, June 7, 2017.
- <sup>7</sup> By way of perspective and one relevant data point, SS&C provides services for ~63% of interval fund products in the U.S. market. The average repurchases for this sample of interval funds is currently running at ~5% on a quarterly basis.
- <sup>8</sup> Source: <http://www.dtcc.com/wealth-management-services/mutual-fund-services/fund-serv>
- <sup>9</sup> Automated Customer Account Transfer Service allows for electronic funds transfer between NSCC-eligible members and Depository Trust Company member banks.
- <sup>10</sup> Source: <http://www.dtcc.com/wealth-management-services/alternative-investment-products/aip>
- <sup>11</sup> The Stanger Interval Fund Report™, Volume IV No. 3, Summer 2020
- <sup>12</sup> Interval Fund Tracker Web Site as of year-end of 2023 using the “Active Interval Funds” data tab as well as the “New Interval Fund Registrations and Launches” data tab.
- <sup>13</sup> <https://www.wealthmanagement.com/alternative-investments/top-10-interval-fund-raisers-2023>

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