CION INVESTMENTS

# The Tradeoff: Traded vs. Non-Traded Investment Funds


When investors have capital to invest, they have a lot of decisions to weigh before making a choice. In addition to the more frequently discussed choices regarding managers, asset types, and share classes, investors should also consider which wrapper best suits their needs.

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In the spectrum of investments, there exists a large variety of options for individuals to choose from. Investors with differing ages, time horizons, risk profiles, and short and long-term financial goals all enjoy a great many options in the way they seek to meet their objectives. Even further, investors are able to make use of different asset classes and investment vehicles with which to seek their preferred path on the road to their financial future. One of the many factors investors must consider in making an investment decision that meets their individual needs is whether they wish to invest in an instrument that is traded, or a non-traded product.

In most sectors of the traditional investment marketplace at large, the decision between traded and non-traded does not exist or is of minimal consideration. This is because the investments that make up a fund's portfolio are typically traded themselves, making the manager's decision very straightforward when it comes to how the fund will be wrapped and distributed. One part of the greater investment marketplace where this is not the case is alternative investments. Alternative asset managers typically seek to take advantage of the yield premium associated with holding illiquid assets. As such, alternatives are one investment class where investors face the choice of whether a traded or non-traded wrapper is right for them and their goals.

## TRADED FUNDS

Traded investment funds are by far the more common structure, in fact most individual investors may only be aware of the traded option. The main characteristics of traded funds are as follows:

- **Listed:** Traded investment funds are listed on a public exchange, such as the NYSE or NASDAQ
- **Liquid:** Investment funds can be sold on any day the public exchange it is listed on is open for trading, provided there is a buyer
- **Market Pricing:** Traded funds are bought and sold at a price determined by the open market. The share price may be greater than or less than the net asset value of the fund depending on market forces

## NON-TRADED FUNDS

For investment managers that invest in alternative assets such as credit, real estate, natural resources, or hard assets, it may not make sense to list a fund on a public exchange if the underlying assets do not go through frequent valuations. The main characteristics of non-traded funds are as follows:

- **Unlisted:** Non-traded investment funds are purchased directly from the fund manager, they are not freely bought and sold on a public exchange
- **Illiquid:** Due to the illiquid nature of the assets the funds invest in, shares in these investments may not be readily redeemable. Ranging from the years-long lock up period of direct participation programs to the 90-day repurchase offers of some interval funds, non-traded funds will be much less liquid than their traded counterparts.
- **NAV Pricing:** Because there is no secondary market for non-traded investment funds, they are typically bought and redeemed at the fund's net asset value or a price derived from net asset value.

Some types on investment funds, for example real estate funds, may be available in both traded and non-traded forms. Each of these investment vehicles comes with its own advantages and disadvantages. Because of this, many investors will make use of both in different parts of their portfolios to accomplish different goals. When evaluating their investment choices, investors should work with their financial advisors to determine which wrapper better suits the underlying assets and their own investment goals.

To learn more please contact your financial advisor.