CION INVESTMENTS

Interval Funds: What's in A Name?

Investment products are the hinge between your money and your life goals. And because everyone's money, goals and life are different – in fact, infinitely varied – financial investment products are creative, intelligent, and built to solve problems.

Their names on the other hand, are usually strictly utilitarian. Some of the reasons why are good – regulators work hard to ensure that products are sold appropriately and described accurately.

The end result, however, is why we have things like Mutual Funds, so named because many investors mutually pool their money together. Or Exchange Traded Funds, because they are funds that trade on exchanges like a stock, as opposed to mutual funds that price once a day. Or Hedge Funds, because they were originally developed by institutional investors to offset risk in other parts of their portfolio – like "hedging a bet".

And Interval Funds? The salient characteristic is that they allow for redemptions at intervals, usually every 3, 6, or 12 months. What problem would that tackle, or opportunity would that present? Read on.

Matching the Strategy to the Structure

One of the challenges in financial planning in recent years has been creating portfolios that maintain the desired diversification and risk profile while still targeting return and income goals. The persistent low yield environment over the last decade has complicated what used to be a fairly simple income strategy of buying and holding bonds.

One potential asset class that may address these concerns is illiquid, alternative assets. This asset class is usually non-correlated or has low correlations to exchange traded assets and can provide portfolio diversification. Illiquid alternative assets may also offer an illiquidity premium such as the potential to offer enhanced yield from the direct origination of private debt.

The problem is that the manager needs to hold the assets in the strategy long term. An open-end mutual fund or ETF structure that has daily repurchase requirements might result in the manager having to liquidate positions that need a longer holding period to realize the investment. The limited liquidity requirement of the interval fund structure can be an effective compromise between the needs of the manager to execute the long-term strategy and the liquidity needs of an investor.

An interval fund also can hold different types of assets, allowing the manager the flexibility to efficiently alter the asset allocation in response to market conditions.

What Else Do Interval Funds Offer?

Besides the ability to invest in strategies that may help meet portfolio goals, there are several other features.

- Investment minimums can be relatively low compared to other private investments, generally starting at $2,500 for non-qualified accounts
- Continuously or periodically offered
- Interval funds are always repurchased at NAV
- Tax reporting on distributions is simple and done by Form 1099
- Regulated by the Investment Company Act of 1940

Because interval funds offer only limited liquidity, investors must be mindful that their investment dollars will not be available to them in the way an exchange-traded investment may be. There are also some risks investors should be aware of.

Wrapping It Up

Interval funds can provide a way to broaden the types of assets held in existing investment portfolios, while still allowing for the share repurchases necessary. By limiting liquidity, they can employ very long-term strategies that have the potential to provide diversification and enhanced yield.