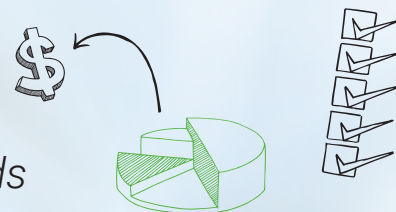


ARE YOU EXPLORING NEW PRODUCT STRUCTURES?

Launching innovative strategies with interval funds



With investors demanding more sophisticated investment choices and access to higher yielding securities, advisors are taking a more strategic approach to investment management. So it's no surprise that investment in real estate, hedge fund strategies and alternative asset classes have become more prevalent among advisors – even among advisors who focus on the mass affluent.

But while open-end liquid alternatives, listed REITs and other highly liquid investment structures are suitable for certain strategies, they are not a panacea for all investment categories. The ability to deliver innovative products with differentiated risk/returns requires some limitation on liquidity and redemptions.

Interval Funds: Examining the Benefits

The closed-end fund structures known as interval funds provide intermittent liquidity while offering a more suitable fund structure for some of these alternative strategies. Interval funds, which invest in both private and public assets, offer shareholders regular periodic repurchase offers without subjecting investors to the trading discounts to NAV pricing that are commonplace among traditional closed-end funds. Considered a niche product, interval funds are gaining popularity. Five years ago AUM were less than \$8 billion, today AUM is almost \$30 billion. Moreover, the number of new interval or tender offer fund launches has picked up over the last few years as advisors search for investment strategies that offer low correlation investment benefits or differentiated risk/return benefits.

The interval fund structure can be appealing to institutional managers who are looking to expand their distribution into the retail market. The interval fund structure allows them to maintain the basic profile (risk/return) of their strategy by enabling greater exposure to less-liquid holdings and greater flexibility to use leverage. And as regulators continue to push for more liquidity and oversight of derivative usage in '40 Act mutual funds and ETFs, the continuously offered closed-end fund structure can also be more appealing to alternative strategy investment managers as well.

Recommendations for Asset Managers

Ultimately, the benefits of interval funds are in the eye of the beholder. Nonetheless, the selection of the optimal structure needs to be carefully weighed against the management of the investment strategy, the distribution of the product and the needs of shareholders.

For firms considering an interval fund structure, here are some tangible recommendations:

- **Strategy Brand Considerations:** A primarily mutual fund-focused organization will need to carefully consider how the product fits with its other products and how its distribution staff is trained and incentivized to sell the new product. These products need to be a focus for the firm, otherwise they can get lost in the shuffle of the broader product line
- **Optimizing Share Class and Pricing Considerations:** Firms need to carefully evaluate their targeted distribution channel and any associated fee sensitivities. When evaluating fees, master-feeder options and loads, it's critical to work closely with legal counsel who has extensive experience in supporting the launch and management of these structures. Operational considerations are equally important. Working with a platform that has extensive experience in servicing these structures and offering full shareholder record-keeper and distribution support capabilities is imperative both before and after the launch of interval or tender offer funds.
- **Transparency and Straightforward Communications:** Closed-end fund sponsors (tender offer and interval) need to be explicitly clear on all features, fees, and the liquidity of the product. Being transparent on these details assists in the education process and ensures there are no surprises among advisors later on. To ensure full disclosure and a thorough understanding among potential investors, firms should place an explanation of the structure and the underlying investment strategy on the product page of the website, where it is intuitive and easy to locate.

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- Identifying a Targeted Audience: Not all firms and advisors will be receptive to investing in an interval fund. Consequently, identifying the right audience and focusing marketing and distribution to those advisors is highly recommended. This will ensure that marketing and distribution costs and resources are optimally deployed to those most willing to invest in such a product.
- Support Sales Through Client Journey Personalization: Understanding the decision-making process of advisors and how they engage with asset managers is a critical element in the placement and sale of any financial product. Sponsors of interval funds need to ensure their national account, sales, marketing and product teams are working symbiotically to educate and engage advisors at the right time during their decision-making process.
- Working with Distributor Platforms: Sponsors of closed-end fund structures need to work closely with the firms responsible for the oversight of the managed account program (could be the B/D or the TAMP) to evaluate how the product can plug into these platforms. This can assist in attracting a wider potential audience, as it doesn't force them to change how they manage investments in their client portfolios.

Certainly, a wide range of institutional alternative money managers have found success in the mutual fund or ETF market over the past several years. But for those asset managers looking to develop new alternatives that appeal to investors and also assists in managing liquidity, interval funds should be considered.

About the Authors

This article was written by Lisa Mougín and Chris Shaw. Lisa Mougín is Senior Vice President of Sales and Client Relationship Management for ALPS Fund Services and Chris Shaw is Operations Officer for DST.



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