

Interval Fund Structure Poised for Growth as Investors Seek Access to Private Markets

By Jennifer Banzaca

Interval funds are growing in popularity, in large part, because investors are able to access private markets in a way they have not been able to through traditional mutual funds.

During the **Active Investment Company Alliance's (AICA) Interval Fund Boot Camp and Manager Spotlight** on March 31, Ben Rotenberg, portfolio manager of the Diversified Select Real Asset Fund at Principal Financial Group, said in a market economy seen the past several years, investors are thinking about income and inflation protection, something interval

funds can provide, adding to the growth of these structures.

John Cole Scott, CIO of CEF Advisors and founder of CEFData.com, noted that interval funds, while growing in popularity, got off to a slow start, the second interval fund wasn't created until 2001, and the third fund formed in 2005.

Interval funds represent a minute 0.1% of the overall multitrillion dollar fund industry. However, interval funds are growing assets at roughly 50% annually, with 77 total active interval funds managing \$39.46 billion in AUM as of March 29, 2021, compared to listed CEF/BDC's AUM of \$298 billion in 535 funds, according to CEFData.com.

Scott noted that while the interval fund structure has been around for a while, the structure has been revitalized in the last two or three years alongside the closed-end fund market more generally.

Currently, there are only five interval funds with a 10-year track record. Only 13 funds have a five or 10-year track record, 15 have three- to five-year track records, and 28 funds have a one- to three-year track record. There are also five funds less that have been around for less than a year that are reporting to CEFData.com.

Rotenberg noted that investors like interval funds because they provide access to the

private market that might otherwise be off-limits to them. Managers like the structure because it also allows for more permanent capital, because of longer lockups than mutual funds, allowing portfolio management teams to build a strategy that can fully access and take advantage of private markets and do not need to be concerned with the need to raise cash on a daily basis to meet redemption requests.

Randy Anderson, Chief Economist of Griffin Capital Corporation and Chief Investment Officer of Griffin Capital Advisors, agreed that interval funds are more popular now, particularly as some of the highest-yielding securities are often the hardest to buy and sell.

As more managers launch interval funds, there are more investment options available to investors, Anderson added.

“Today, we see more interval funds pursuing alternative investment strategies that invest in real estate, alternative credit, private loans, and insurance-linked products, which can provide investors with high quality risk-adjusted returns.”

Another advantage of interval funds is flexibility, noted Kevin Petrovcik, a Senior Client Portfolio Manager for Invesco’s Global Senior Loan group.

“Interval funds allow you to be more flexible and more dynamic in terms of your portfolio

construction and engagement, and the active management of those portfolios. It’s a managed portfolio but doesn’t have daily liquidity, which enables you to incorporate a little bit of leverage and have a longer-term strategy,” Petrovcik said.

Last year was tough for many fund managers, particularly those with very liquid portfolios who were forced to sell assets to meet redemptions, particularly ETFs and mutual funds. However, interval fund managers were able to be opportunistic and take advantage of market dislocations.

According to Clayton Triick, senior portfolio manager at Angel Oak Capital, 2020 was a great example of how liquidity can disappear, but an interval fund structure protects shareholders from other shareholders.

“You can have investors stay the course when bid-ask spreads are the widest, where they’re really getting paid to own that risk. So, you don’t necessarily have to buy assets at that point, but you also don’t have to sell assets just to meet redemptions. That really allows shareholders to protect themselves from other shareholders in the fund who might otherwise panic and run for the exit.”

Looking at alternative credit opportunities for interval funds, Triick said the structure works for areas of ABS, and below investment grade CLOs.

Muhammad Gazi, product specialist and investment committee member of the Griffin Institutional Access Credit Fund, which is managed by Bain Capital Credit, said he is seeing a lot of opportunities across the high-yield credit spectrum.

Andrew Fox, an investment strategist at Lord, Abbett and Co., added that with the latest stimulus aimed at the lower-end consumer, it is allowing money to come back into the market quickly. This has Lord, Abbett looking at opportunities in the ABS space and “discarded optionality” in areas like regional gaming.

In the real estate space, Griffin Capital’s Anderson said he expects a lot of dry powder that was sitting on the sidelines to be deployed and transaction volume picking up “pretty substantially”.

Anderson noted that his firm is bullish on the multi-family, industrial, and life science segments, as they have strong secular growth and have not impacted by technology.

While some areas retail sector suffered from the COVID-19 induced lockdowns and suffered markdowns, there are areas poised for rebounds as the economy reopens.

“I think some of properties, particularly things like grocery-anchored retail and neighborhood-centered retail, are going to

do quite well and better than expected as the economy opens back up and have money to spend. We also believe that hospitality got beat up on the public market side but we’re already seeing hospitality stays moving up as the economy opens back up, so that’s another interesting area to watch.”

Disclosure: The opinions of the speakers / presenters are their own opinions and may not be the opinions of AICA. Listed closed-end funds and business development companies trade on exchanges at prices that may be above or below their NAVs. There is no guarantee that an investor can sell shares at a price greater than or equal to the purchase price, or that a CEF’s discount will narrow or be eliminated. on-listed closed-end funds and business development companies do not offer investors daily liquidity but rather on a quarterly or semi-annual basis, often on a small percentage of share. CEFs often use leverage, which can increase a fund’s risk or volatility. The actual amount of distributions may vary with fund performance and other conditions. Past performance is no guarantee for future results.

We are appreciative of Northern Trust for sponsoring this content.

