



I N V E S T M E N T S

Interval and Tender Offer
Fund (Non-listed CEF)
Consulting

10

LESSONS
LEARNED

1. Start the Process with Sales

The sales, distribution, national accounts and marketing strategy is often overlooked or discounted by investment strategy-led firms. Many first-time fund sponsors begin drafting the N-2 prospectus before working through the various sales and marketing considerations, which can impact the terms and structure of the fund. It is important to first consider what retail or end investors want and what changes need to be made to the investment strategy to avoid unnecessary amendments and re-work after launch.

2. Don't Chase the Market Leader

The non-listed CEF market has tremendous growth potential as retail demand for access to alternatives increases and as more advisors and investors adopt the use of the non-listed CEF structure. There are several alternative asset managers currently leading the non-listed CEF market by assets in the credit and real estate segments. There are also several well-established traditional asset management firms that have launched multiple non-listed CEFs with the support of their large mutual fund sales teams. New fund sponsors should not be concerned with chasing these players. Alternative investment managers can be successful with a small sales team that has strong relationships with RIAs or family offices. Focus on existing institutional client relationships – clients that know and trust the firm.

3. New and Different is Good, but Challenging

The SEC registration process can be elongated by multiple rounds of comments and edits required on new or nuanced fund structures. Experienced product design and legal teams can assist with keeping this process as smooth and quick as possible. Find legal counsel, auditors or consultants that have specific experience with non-listed CEFs.

4. Product Design Matters

Alternative asset managers with primarily private funds lack familiarity with registered funds and may not have an appreciation for the nuances of the 1940 Act, including reporting requirements and legal limitations. Product design drives the ability to sell the fund and allows the fund to be competitive in the marketplace. Many non-listed CEFs with good portfolio performance have been closed or failed to scale and gain critical mass, which can result from the product structure being treated as an afterthought.

5. Clones Not Welcome Here

Non-listed CEFs are designed to house illiquid investments. If an investment strategy fits in the mutual fund, UCITs or ETF structure, it is likely not a good fit for the non-listed CEF structure. The SEC staff will question any non-listed CEF that has a large allocation to liquid securities and may challenge the structural fit. As such, clone funds or variations on liquid investment strategies are not likely to work in a non-listed CEF. Fund sponsors should consider evaluating existing private fund strategies to see if any of those institutional alternatives can be offered to retail investors using the non-listed CEF structure.

6. Get in Line with Clearing Firms Early

Adding a new non-listed CEF to a major custody platform like Schwab, Fidelity or Pershing can take upwards of 3 to 6 months. There is a queue, it is typically first come, first served and gathering indications of interest ahead of onboarding is important. If the fund is complex or the sponsor is slow to address diligence questions, the onboarding process will likely be stalled.

7. Liquidity, Liquidity, Liquidity

Liquidity is a crucial topic for both managing and marketing non-listed CEFs. Non-listed CEFs typically hold illiquid assets and require advanced liquidity planning to be prepared to meet quarterly redemption requests. Fund managers must think long and hard about their liquidity management plan and ensure they are prepared to withstand multiple quarters of full redemptions. When marketing non-listed CEFs, sponsors should properly convey to investors that the investment should be long-term, they will have limited liquidity at exit, and their redemption request may be prorated. If framed properly, the lack of liquidity can be a selling point when educating investors on the benefits of a non-listed CEF, as it can help prevent the realization of temporary losses.

8. Daily NAV Opens Doors

Non-listed CEFs that generate a daily NAV strike are permitted to join the NSCC/FundSERV mutual fund ticketing platform, which can significantly impact a fund's ability to gain sales traction. Non-listed CEFs with a less frequent NAV calculations must use subscription documents for new investments into the fund. An increasing amount of non-listed CEF sponsors with largely illiquid investment portfolios have developed policies and procedures to arrive at daily valuations by working with experienced fund administrators and 3rd party valuation agents.

9. Avoid the Valley of Death

The registration of a non-listed CEF with the SEC is not its starting point; the practical launch is when it reaches \$100 million in AUM. By kickstarting the launch of a fund with seed capital, lead capital or contributed capital (e.g., private fund conversion), managers help de-risk the launch of their fund. No new investor wants to be the first investor into a small, sub-scale fund. Very few third-party sales teams effectively raise capital in non-listed CEFs because the initial sale from dollar zero is so challenging. Starting out of the gate with \$50mm or \$75mm accelerates the capital raising process with RIAs and family offices and allows the fund to reach a critical mass whereby the expenses are not a drag on the returns of the fund or the pocketbook of the sponsor.

10. Consider Saving Time/Money with Series Trust Platform

In the mutual fund market, series trusts are commonly used as a way to gain economies of scale for small or new fund managers. While closed-end funds, including non-listed CEFs, require each trust to be a separate legal trust, several fund administrators have created quasi-series trust platforms with shared fund boards and service providers to help reduce costs and speed up the product launch.

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————— XA Investments: Non-listed CEF Consulting Lessons Learned



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10

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XA Investments Consulting Service Offerings

CEF and Interval Fund Strategy Consulting Services General product design and structuring assessment and advice. Competitive intelligence on the CEF marketplace and competitor funds. Provide introductions to leading CEF industry service providers.

Private Label CEF and Interval Fund Design, Structuring and Market Delivery Full service product launch execution services from start to finish including management of the fund development, regulatory and board matters, distribution planning and offering timetable.

Listed CEF Secondary Market Support Development and execution of a comprehensive marketing plan. Design and development of marketing, media, analyst and investor outreach to drive secondary trading volume and price support.

CEF Sub-Administration, Fund Accounting and Fund Board Services Outsourcing of key fund operational, administrative and service provider management. Optional product management services and fund board oversight and reporting services.

Marketing Services Marketing material content creation, design, development to support product sales and client outreach for registered and private funds.

Feasibility Study Pre-engagement feasibility study to provide a better understanding of the opportunities and challenges of launching a new fund before committing to a full-scope fund launch.

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