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John Cole Scott Analyzes Four Low-Fee, Lesser-Known Interval Funds

Interval funds are one of the fastest-growing sectors of the alternative investment industry. Just ten years ago there were only about 25 such products on the market. Today there are now more than 110 interval funds actively managing more than $103 billion in total assets.[1]

Designed to expand access to illiquid and semi-liquid investment strategies through frequent valuations and 1099 tax forms, interval funds have helped to upend traditional 60/40 portfolios and increase retail investor access to the world of non-traded products.

From an advisor's perspective, the interval fund structure makes it easy to set mid- to long-term investment timelines for investors while potentially avoiding the kind of volatility associated with listed business development companies (BDCs) and closed-end funds.

On the October 11, 2024, episode of the NAVigator Podcast, John Cole Scott, Chairman of the Active Investor Company Alliance and President of Closed-End Fund Advisors, analyzed four lesser-known interval funds that he says offer relatively low management fees and low volatility while boosting access to credit, infrastructure, and other private holdings:

First Eagle Credit Opportunities Fund (FECRX)

Inception Date	9/15/2020
AUM	$889 MM
wYield	10%
Management Fee	1.25%
YTD 2024 Performance	+6%

First Eagle Investments: The closed-end interval fund seeks to provide current income with a focus on delivering strong risk-adjusted returns over the long term by investing in a range of private and public credit assets — including direct lending, middle-market “club” loans, syndicated bank loans, asset-based loans, and high yield bond.[2]

John Cole Scott: “FECRX gives you about a 10% yield with only about 9% leverage. For those investors that are comfortable with not necessarily having daily or possibly even quarterly liquidity, you drop a lot of the volatility associated with the fund, and so the fee structure’s a lot lower than you would get in … even a non-traded or private BDC, but you don’t have to worry as much about discount direction.”

Larry Holzenthaler, Managing Director, Portfolio Manager, and Senior Alternatives Strategist at First Eagle Alternative Credit: “We are increasingly hearing more concern from investors about equity market valuations and the potential for volatility. Although credit is a ‘fixed income’ asset class, as these loans have maturity dates and a coupon, corporate loans can actually act as a form of defensive equity exposure. You’re investing in companies but doing it from the senior-secured position in the capital structure, which offers the potential for a lower risk profile as well as higher current income. With base rates still elevated, we believe floating rate loans offer a compelling risk-adjusted total return. Equity-like returns with potentially less risk.”

Cantor Fitzgerald Infrastructure Fund (CFIIX)

Inception Date	7/10/2022
AUM	$170 MM
wYield	4%
Management Fee	1.50%
YTD 2024 Performance	+18%

Cantor Fitzgerald: The continuously offered, closed-end interval fund’s investment objective is to maximize total return with an emphasis on current income while seeking to invest in issuers that are aligned with certain United Nations Sustainable Development Goals.[3]

John Cole Scott: “Year to date … it’s been a very good year for [infrastructure]. It’s up 18% year to date, and if you look at the [CFIIX] portfolio, it’s 70% roughly private infrastructure-focused and 30% publicly listed infrastructure securities … and it’s 90% U.S.-focused. There are 48 listed positions and seven private funds, but those seven private funds give exposure to around 5,000 underlying private holdings, and the thesis of the management team is the digital transformation, the energy transition, and enhancement of aging current infrastructure.”

Michael D. Underhill, Chief Investment Officer, Capital Innovations (sub-advisor): "The infrastructure investment opportunity, in our view, is wide and deep ... [and] more growth-oriented than in decades past. We continue to expect potential opportunities to develop in the coming years in both public and private markets. CFIIX itself is well-suited for income-focused allocations and … we think it's a strong complement to allocations to other real assets, which may include real estate, private equity, or private credit."

PIMCO Flexible Emerging Market Income Fund (EMFLX)

Inception Date	3/15/2022
AUM	$50 MM
wYield	6.3%
Management Fee	1.3%
YTD 2024 Performance	+12%

PIMCO: The EMFLX interval fund seeks to achieve its investment objectives by investing, under normal circumstances, across a wide array of instruments, including from sovereign, quasi-sovereign and corporate borrowers, that are economically tied to "emerging market" countries.[4]

John Cole Scott: "The fund is up the first three quarters of the year about 12%, and as a focused portfolio the top 10 holdings are just under 20% exposure, and it's 80% emerging markets by focus. The management team talks about [using] the interval fund wrapper to structure lending in a flexible way that can insulate against some of the historical risks that are observed in emerging market countries, which include defaults, capital controls, and currency depreciation. It's a great use of the interval fund wrapper that's not yield-hungry for more of a total return, active-management approach."

Christian Clayton, PIMCO Executive Vice President who leads product strategy for PIMCO's global wealth alternatives platform: "Because interval funds do not offer daily liquidity, they allow us the potential to generate additional yield and returns through tools beyond just increasing credit risk. With spreads relatively tight today, we think that yield pickup is increasingly valuable to investors. EMFLX can provide unique exposure for investors … and as one of the largest emerging market debt platforms in the industry, we have the ability to source such opportunities offering higher yields compared to more generic bonds."

First Trust Alternative Opportunities Fund (VFLEX)

First Trust Capital Solutions: The closed-end interval fund seeks to achieve long-term capital appreciation by pursuing positive absolute returns across market cycles with low sensitivity to traditional equity and fixed income indices. VFLEX uses a "multi-manager" approach, allocating assets amongst First Trust Capital Management L.P. and one or more sub-advisers, in percentages determined at the discretion of the investment manager.[5]

Inception Date	6/12/2017
AUM	$1.5 B
wYield	7%
Management Fee	About 1%
YTD 2024 Performance	+7.6%

John Cole Scott: "Year to date, because it's really a fund of funds … it's only up just under 8%. It can go roughly a third into all these categories but right now it's 10% private equity, 12% real estate, 18% alternative credit, 20% hedge strategies, and almost 40% direct co-investment — an area that you don't easily see in other funds. [VFLEX also has] liquid strategies, the biggest bucket being CEF arbitrage to maintain that liquid bucket for redemptions. [The fund offers investors] a chance to use listed closed-end funds in the portfolio for probable performance relative to ETFs to create alpha potentially and keep a liquidity profile [via] a really durable, diversified multi-sector manager fund."

Listen to the October 11, 2024, NAVigator Podcast to learn more about these four funds.

References

[1] CEFData.com

[2] First Eagle Investments, https://www.firsteagle.com/funds/credit-opportunities-fund

[3] Cantor Fitzgerald, https://www.cantorinfrastructurefund.com/

[4] PIMCO, https://www.pimco.com/us/en/investments/interval-fund/pimco-flexible-emerging-markets-income-fund/inst-usd

[5] First Trust Capital Solutions, https://firsttrustcapital.com/fund-literature/#1663698805182/fdc68415/7757