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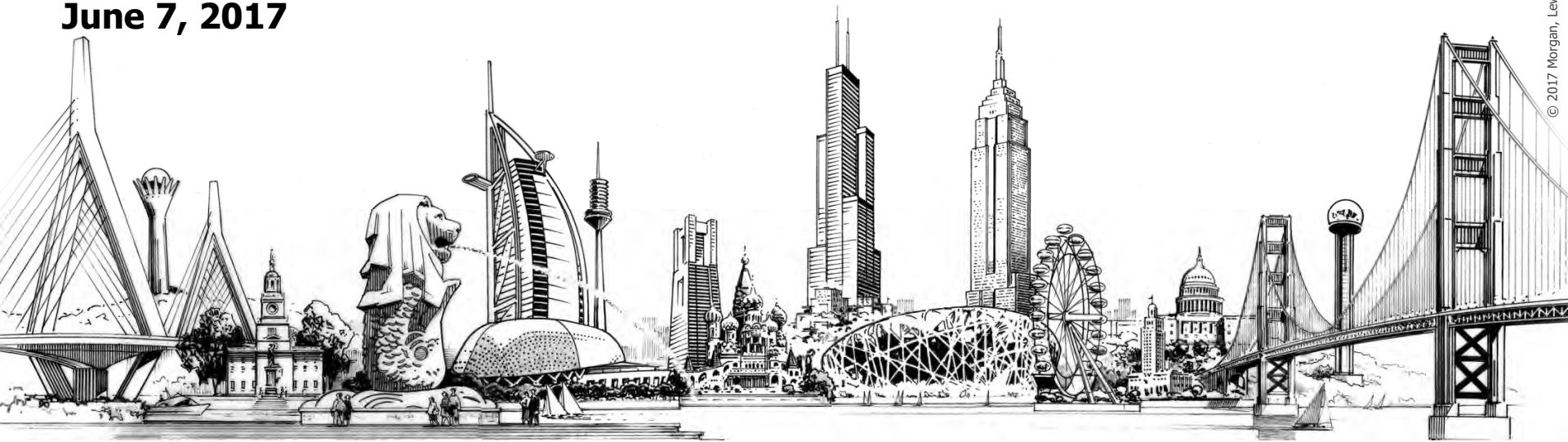
UNDERSTANDING CLOSED- END INTERVAL FUNDS

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Overview

- What are Interval Funds?
- How are Interval Funds different from hedge funds, closed-end tender offer funds, and liquid alternative mutual funds?
- What are the benefits of Interval Funds?
- How do you form and operate an Interval Fund?

Interval Fund Developments

- Approximately 20 Interval Funds have been organized in the last three years.
- Each undertakes quarterly repurchase offers.
- Considerable variance regarding the percentage of shares offered to be repurchased at each interval (5%, 10%, 15%, 25%).
- More than half have been granted or have applied for exemptive relief to offer multiple share classes.

What Are Interval Funds?

Key Characteristics

- Registered under the 1940 Act as a continuously offered, closed-end investment company.
 - Files a registration statement with the Securities and Exchange Commission (SEC) on Form N-2.
 - Separate trust or corporate entity.
 - Subject to 1940 Act requirements.
 - No limitation on investments in illiquid assets.
- Exempt from ERISA Plan Asset Rule.
- Issues 1099s (if Subchapter M diversification is met).
- Operates in accordance with Rule 23c-3 under the 1940 Act.
 - Permits an Interval Fund to engage in a mandatory, periodic repurchase offer to buy back shares at net asset value.

What Are Interval Funds?

Certain 1940 Act Requirements

- Interval Funds are subject to the 1940 Act's requirements, including:
 - Fund Governance
 - Majority of independent board members
 - Fund of Fund Restrictions (§ 12(d)(1))
 - Investments in other registered funds are limited
 - Investment Advisory Contract Approval Process (§ 15(c))
 - Initial and annual contract approval by the fund's board
 - Must be done in person and is subject to a detailed due diligence process
 - Shareholders must approve an increase in the advisory fee
 - Prohibitions and Restrictions on Affiliated Transactions (§ 17)
 - Limitations on cross-trades and affiliated brokerage
 - Limitations on Leverage (§ 18)
 - Earmarking assets to cover certain obligations under derivative contracts

What Are Interval Funds?

Key Terms

- **Periodic Interval**

- An interval of every 3, 6, or 12 months.
- An Interval Fund must choose a Periodic Interval and offer to repurchase its shares at each such Periodic Interval.

- **Repurchase Offer Amount**

- Amount of shares that an Interval Fund commits to repurchase at each Periodic Interval.
- Must be between 5% and 25% of the Interval Fund's outstanding shares on a Repurchase Request Deadline.

- **Repurchase Pricing Date**

- The date on which an Interval Fund determines the Net Asset Value (NAV) at which it will repurchase its shares in connection with a particular repurchase offer.

- **Repurchase Request Deadline**

- The date by which an Interval Fund must receive shareholders' repurchase requests or withdrawals or modifications of previously submitted repurchase requests.

- **Repurchase Payment Deadline**

- The date by which an Interval Fund must pay its shareholders for the shares repurchased.

Rule 23c-3

- **Sales and Repurchases**

- Must repurchase its securities pursuant to a fundamental policy, changeable only by “a majority vote of the outstanding voting securities” of the Interval Fund, providing:
 - That the Interval Fund will make repurchase offers at periodic intervals pursuant to Rule 23c-3(b), as may be amended.
 - The Periodic Intervals between repurchase request deadlines — either 3, 6, or 12 months.
 - The Repurchase Request Deadline or the manner in which the Repurchase Request Deadline will be determined.
 - The maximum number of days between the Repurchase Request Deadline and the Repurchase Pricing Date.
- May not suspend or postpone a repurchase offer, except under certain specified circumstances and only pursuant to a vote of a majority of the Interval Fund’s directors (including a majority of the Interval Fund’s disinterested directors).

Rule 23c-3 (Cont.)

- **Sales and Repurchases of Shares**

- Must repurchase shares for cash at the NAV determined on the Repurchase Pricing Date and must pay shareholders by the Repurchase Payment Deadline, subject to certain exceptions.
- May deduct from a shareholder's repurchase proceeds only a repurchase fee, not to exceed 2% of the proceeds, that is paid to the Interval Fund and is reasonably intended to compensate the Interval Fund for expenses directly related to the repurchase.
- May not condition a repurchase offer upon the tender of any minimum amount of shares.
- If tenders are received in excess of the stated repurchase amount then the Interval Fund may either:
 - purchase up to an additional 2% of its outstanding shares on the Repurchase Request Deadline, or
 - accept tenders on a pro rata basis, subject to certain exceptions.

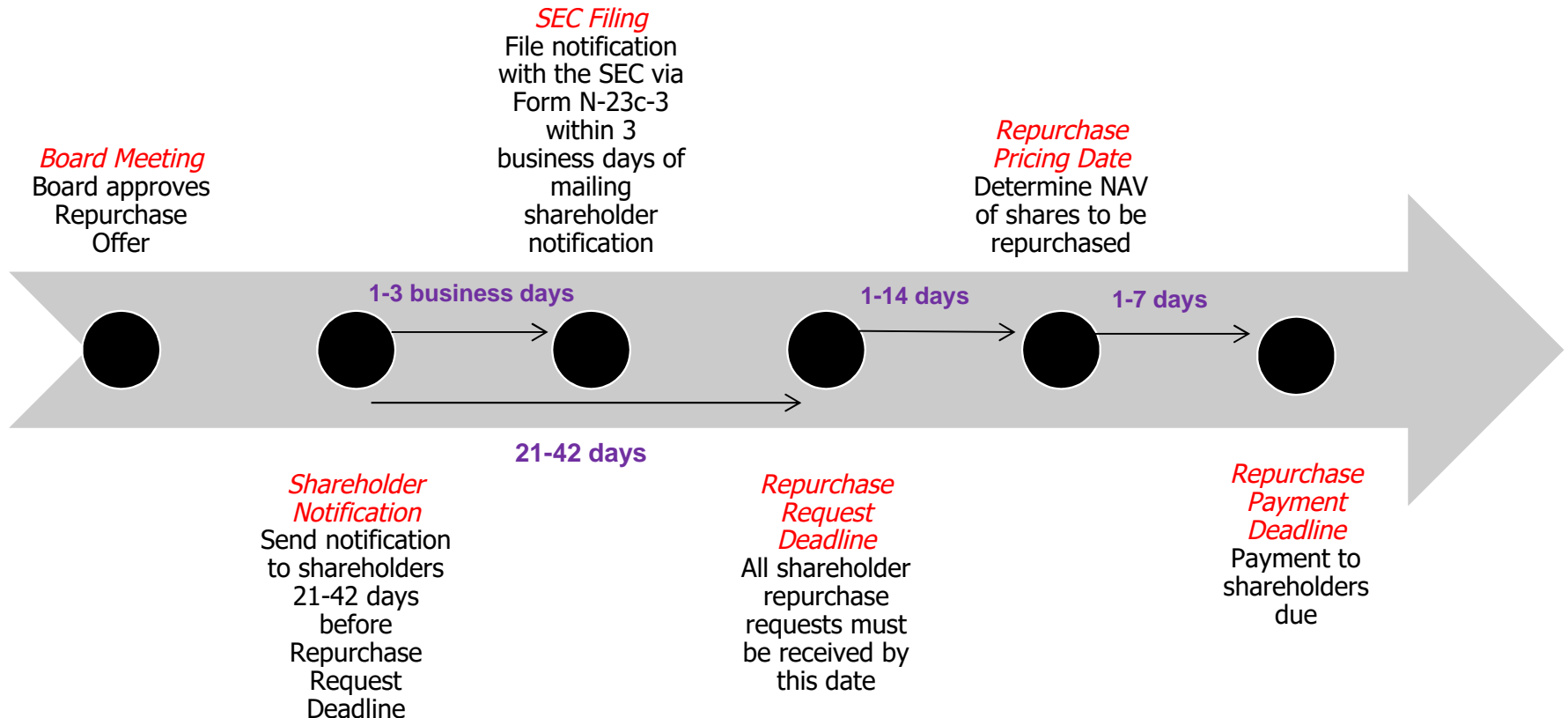
Rule 23c-3 (Cont.)

- **Shareholder Notification**

- Must notify shareholders at least 21 days and not more than 42 days in advance of each Repurchase Request Deadline of relevant information relating to the repurchase offer, such as:
 - A statement that the Interval Fund is offering to repurchase its shares from shareholders at NAV;
 - Procedures to tender the shares and notification of the right to modify or withdraw tenders until the Repurchase Request Deadline;
 - Any fees applicable to the repurchase;
 - The Repurchase Offer Amount, Repurchase Request Deadline, Repurchase Pricing Date, and Repurchase Payment Deadline;
 - The NAV of the Interval Fund's shares computed no more than 7 days before the date of notification and the means by which shareholders may ascertain the NAV after such date; and
 - The risk of fluctuation in the NAV between the Repurchase Request Deadline and the Repurchase Pricing Date.
- Must file notification with the SEC via EDGAR on Form N-23C3A within 3 business days after sending the notification to shareholders.

What Are Interval Funds?

Repurchase Offer Timeline



Rule 23c-3

- **Miscellaneous Requirements**

- First Repurchase Request Deadline must occur no later than two periodic intervals after the effectiveness of the Interval Fund's registration statement.
- Generally required to compute NAV at least weekly.
 - However, the NAV must be determined daily during the five business days preceding any Repurchase Request Deadline.
- Must maintain "liquid" assets equal to at least 100% of the Repurchase Offer Amount during the period from the time notice of the repurchase offer is first sent to shareholders until the Repurchase Pricing Date.
 - A security will be treated as "liquid" if it (i) can be sold or disposed of within the period between the Repurchase Request Deadline and the Repurchase Payment Deadline at approximately the price at which the Interval Fund has valued the security, or (ii) matures by the next Repurchase Payment Deadline.
 - The board must adopt written procedures reasonably designed, taking into account current market conditions and the Interval Fund's investment objective, to ensure that the Interval Fund's portfolio assets are sufficiently liquid so that the Interval Fund can comply with its fundamental policy on repurchases, and comply with the liquidity requirements set forth above.

How Do Interval Funds Compare to Other Products?

	Hedge Fund	Interval Fund	Tender Offer Closed-End Fund	Alternative Mutual Fund
Who Can Invest?	Accredited Investors	Any Investor	Any Investor	Any Investor
How Many Investors Can Invest?	3(c)(1): 100 Investors 3(c)(7): Unlimited Qualified Purchasers	No Limit	No Limit	No Limit
Performance Fee?	Yes, if limited to Qualified Clients	Yes, if limited to Qualified Clients	Yes, if limited to Qualified Clients	Yes, if limited to Qualified Clients, but not in practice
12b-1 Fee?	N/A	Yes, but exemptive relief required	Yes, but exemptive relief required	Yes
Multiple Share Classes?	Yes	Yes, but exemptive relief required	Yes, but exemptive relief required	Yes
How Long to Launch?	Approximately 60 days	<ul style="list-style-type: none"> •Approximately 180 days in total •Initial SEC registration at least three months; often longer •Afterward, new Interval Funds require same process 	Generally longer than Interval Funds due to FINRA Rule 5110 review	<ul style="list-style-type: none"> •Approximately 180 days in total •Initial SEC registration at least three months; often longer •Afterward, new mutual funds can be launched in 75 days

How Do Interval Funds Compare to Other Products? (Cont.)

	Hedge Fund	Interval Fund	Tender Offer Closed-End Fund	Alternative Mutual Fund
Asset Liquidity Restrictions?	None	Must maintain liquid assets sufficient to meet Repurchase Offers during time between notice of Repurchase Offer to shareholders and Repurchase Pricing Date	None	Illiquid securities limited to 15% of net assets
Liquidity Structure?	As determined by the manager of the fund	Repurchase offers required at interval chosen by fund (e.g., quarterly, semi-annually or annually), unless changed by shareholders	Frequency and amount of tender offers is at the discretion of the board	Daily redemptions
Can Payment of Redemption Proceeds Be Delayed?	Yes	No; Repurchase Payment Deadline must occur seven days after the Repurchase Pricing Date	Yes	No; Must pay redemption proceeds within seven days following receipt of a redemption request

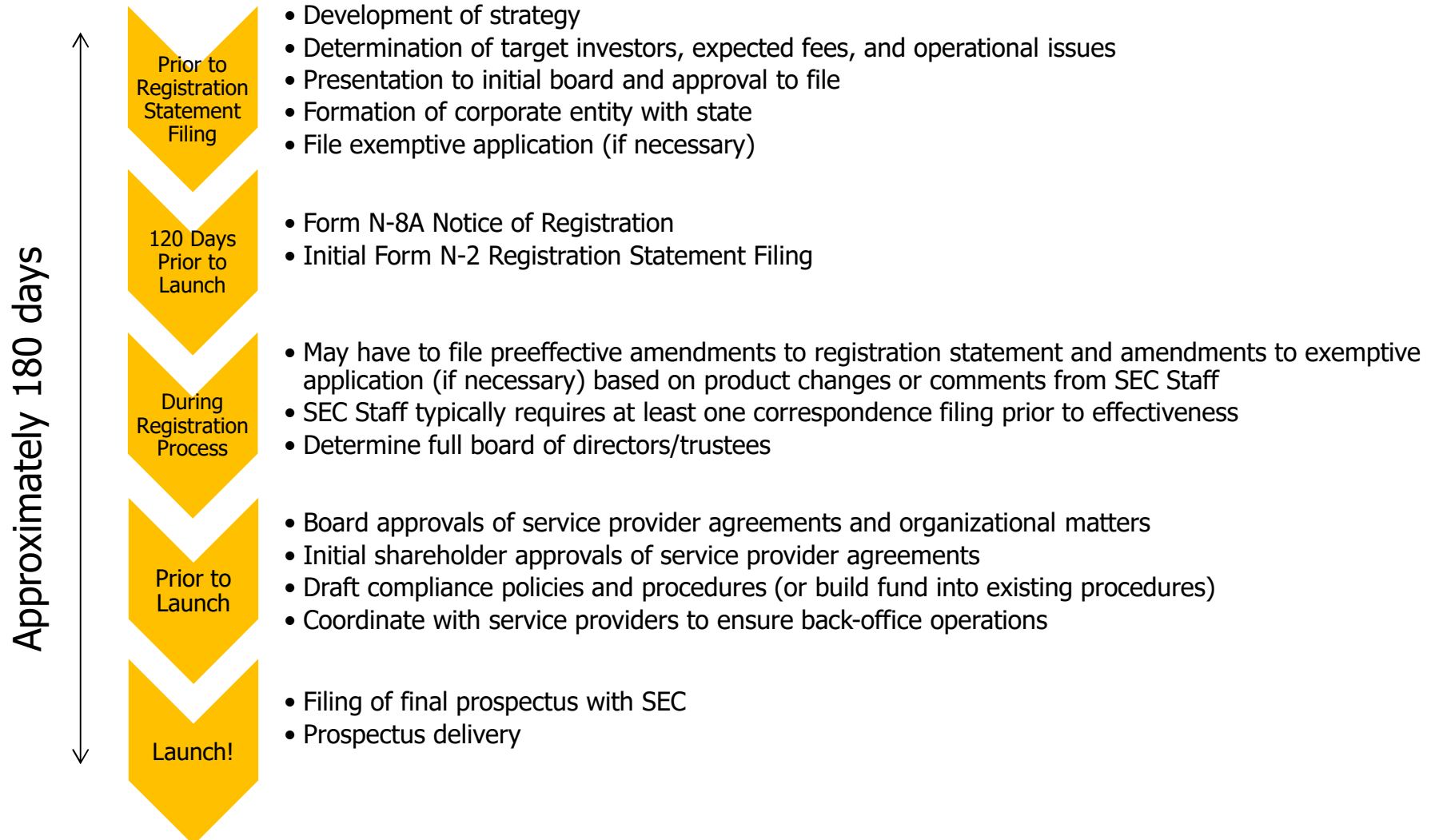
How Do Interval Funds Compare to Other Products? (Cont.)

	Hedge Fund	Interval Fund	Tender Offer Closed-End Fund	Alternative Mutual Fund
Subject to FINRA Rule 5110 Registration Statement Review?	No	No	Yes (if also registered under the Securities Act 1933 Act)	No
How Is the Registration Statement Updated?	N/A	<ul style="list-style-type: none"> •Annual update filing via Rule 486 under the Securities Act of 1933 •Automatic effectiveness 	<ul style="list-style-type: none"> •Annual update filing •Must request effectiveness each year 	<ul style="list-style-type: none"> •Annual update filing via Rule 485 under the Securities Act of 1933 •Automatic effectiveness
Can 1099s Be Issued?	No	Yes, if fund meets Subchapter M diversification	Yes, if fund meets Subchapter M diversification	Yes, if fund meets Subchapter M diversification
Exempt from ERISA Plan Assets Rule?	No	Yes	Yes	Yes

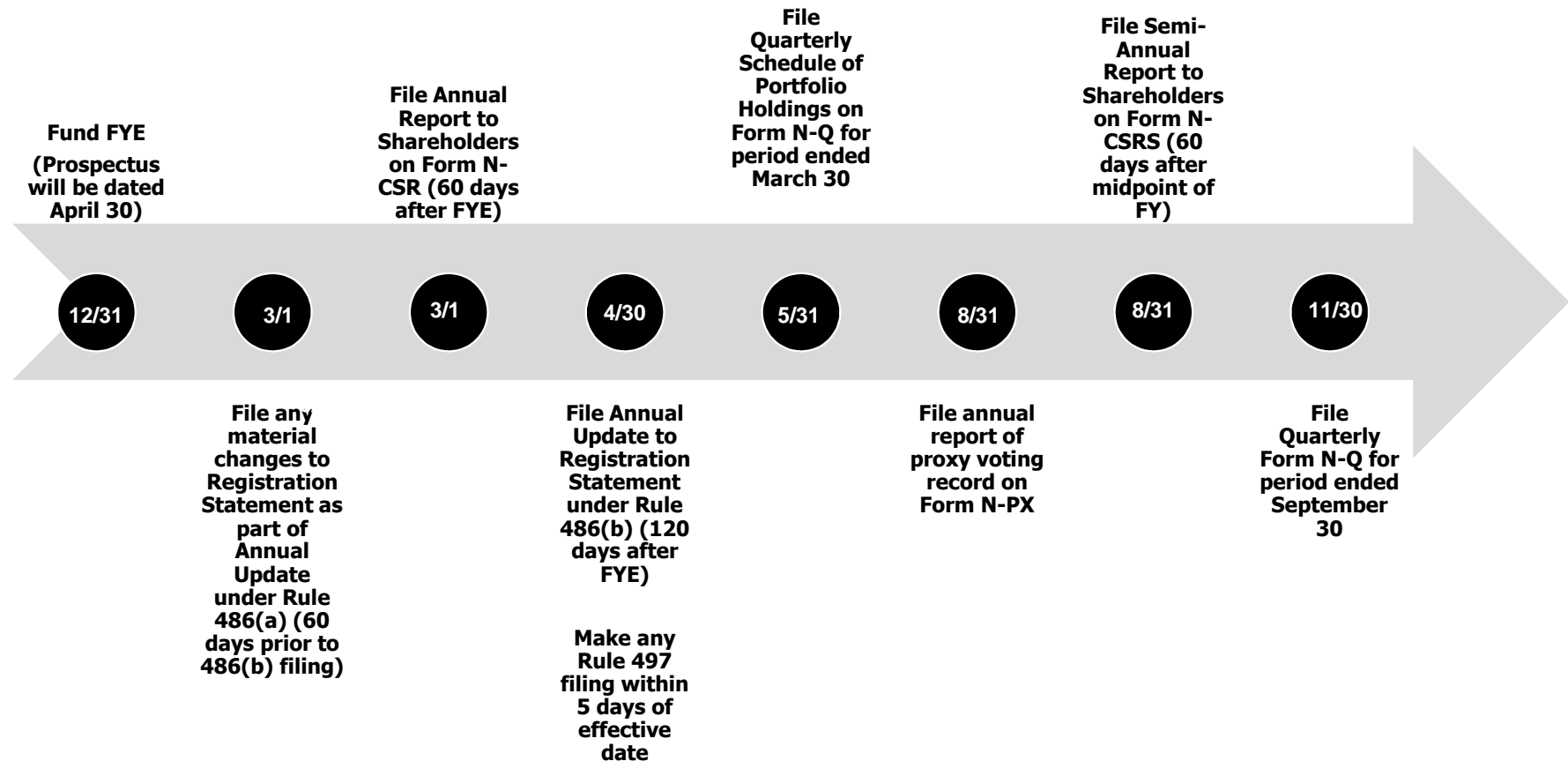
Forming an Interval Fund: Additional Share Classes

- Rule 18f-3, which allows open-end funds to offer multiple share classes, is not available to closed-end funds, including interval funds.
- Therefore, exemptive relief from Section 18's prohibitions on multiple share classes is required if an interval fund desires to offer multiple share classes.
- Exemptive applications are common.
 - Since 2012 approximately 32 multiclass orders have been granted.
 - Requested the ability to charge 12b-1 fees and early withdrawal charges.
 - Commit to complying with Rules 6c-10, 12b-1, 17d-3, 18f-3, 22d-1, and, as applicable, 11a-3 and the NASD Sales Charge Rule (2830(d)).

Forming an Interval Fund: Launch Timeline



Operating an Interval Fund: SEC Filing Timeline



Additional Resources

- Interval Funds: An Alternative to “Liquid Alternative” Funds? Part 1, *The Investment Lawyer*, Vol. 22 No. 9

<https://www.morganlewis.com/pubs/interval-funds-an-alternative-to-liquid-alternative-funds-part-1>

- Interval Funds: An Alternative to “Liquid Alternative” Funds? Part 2, *The Investment Lawyer*, Vol. 22 No. 11

<https://www.morganlewis.com/pubs/interval-funds-an-alternative-to-liquid-alternative-funds-part-ii>

Biography



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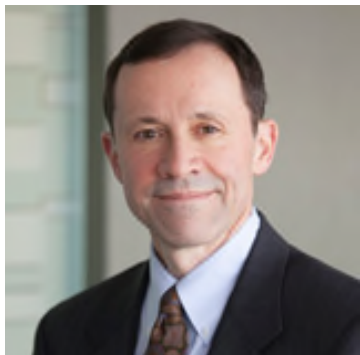
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Sean Graber advises companies in the securities industry on investment management matters. Investment advisers, mutual funds, closed-end funds, private investment companies, registered funds of hedge funds, and exchange-traded funds seek his advice on organizational issues, registration, and ongoing regulatory compliance matters. He also serves as counsel to the boards of directors of mutual funds, and he advises insurance companies on regulatory matters relating to variable insurance products.

Biography



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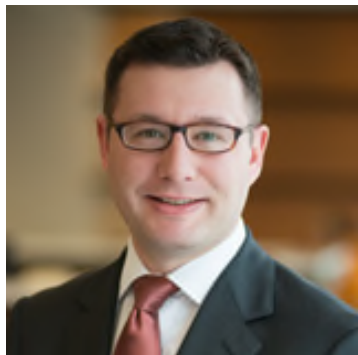
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Thomas S. Harman represents investment advisers (both publicly and privately held), mutual funds, closed-end funds, business development companies, and private investment funds. In so doing, he advises them on a variety of legal and compliance issues. Tom represents the board of directors of several fund families. He also advises issuers with respect to the availability of exemption from the Investment Company Act of 1940.

Biography



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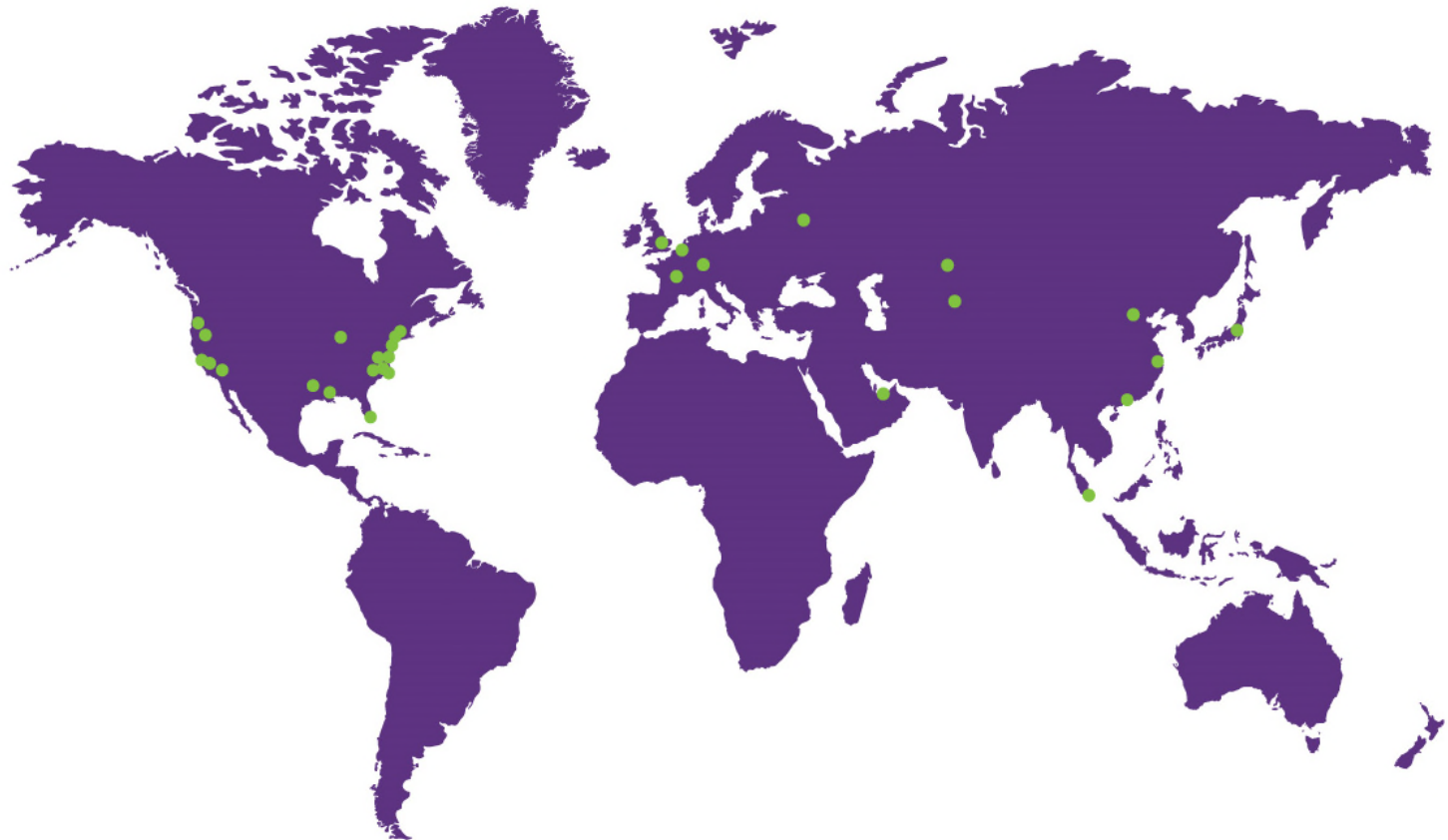
David W. Freese works closely with mutual funds, exchange-traded funds (ETFs), closed-end funds, private funds, and their investment advisers to navigate the shifting terrain. He brings particular experience in launching new fund complexes, from identifying legal issues that arise from proposed fund strategies, through initial US Securities and Exchange Commission (SEC) registration, organizational board of directors meetings, and fund seedings.

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