

An introduction to interval funds

Interval funds vary widely by strategy, but all have one important thing in common: they offer only periodic redemptions at set “intervals,” for instance, monthly or quarterly, rather than daily. The potential benefit to portfolio construction – and to investors – is that they can in turn invest in more narrowly traded, less liquid pockets of the markets. This is where investors typically expect an “illiquidity premium” (higher anticipated return in exchange for less liquidity).

How they work

Interval funds essentially combine some characteristics of both open- and closed-end mutual funds. Although legally structured as closed-end funds, interval funds differ from their traditional counterparts in two notable ways: they typically don’t undergo an initial public offering (where a set number of shares are issued), nor do they trade on an exchange. Instead, interval funds are continuously offered and shares are issued on an ongoing basis, much like open-end mutual funds.

Liquidity for traditional closed-end funds comes through daily exchange trading, whereas interval funds provide periodic repurchase offers at each scheduled interval. This limited fund level liquidity allows the manager flexibility to invest in less liquid securities of public, and potentially private, markets – investments that might otherwise only be available through private funds that come with higher fees and more complicated tax structures.

Structural characteristics of interval funds

	Open-end fund	Listed closed-end fund	Interval fund	Typical private fund
1940 Act registered	✓	✓	✓	
Continuously offered	✓		✓	
Daily valuations	✓	✓	✓*	
1099 tax reporting	✓	✓	✓	
No performance fee	✓	✓	✓*	
No capital calls	✓	✓	✓	
Investor suitability	None	None	None†	Qualified Purchaser
Investment minimum	\$	\$\$	\$\$	\$\$\$
Liquidity	Daily	Exchange traded	Periodic (typically quarterly)	Periodic / Illiquid
Illiquid securities	15% max	No max limit	75%-95% max‡	No max limit

Source: BlackRock, as of June 2020. * May vary by fund. † Typically, interval funds are not legally required to impose investor suitability. However, because of their relative illiquidity, individual distributors may require clients to meet certain criteria, e.g., Accredited Investor standard. ‡ There may be some limitations, as funds must maintain liquid assets sufficient to meet repurchase offers.

How the repurchase process works

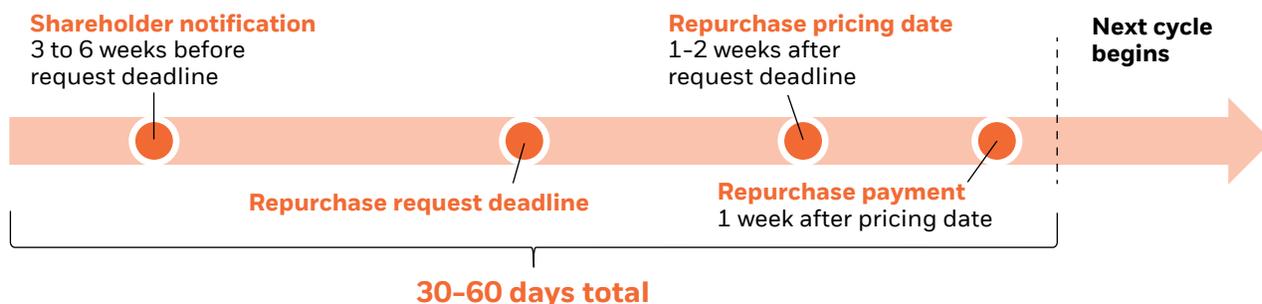
Investors in interval funds gain the opportunity for liquidity through periodic share repurchase offers. Under the 1940 Act, each repurchase offer must consist of between 5% and 25% of a fund's outstanding shares. However, there is a measure of flexibility on timing and each individual fund will have a defined interval and a set schedule associated with repurchase offers.

Shareholders receive proactive notice from the fund when the repurchase period commences, including specific details on the submission deadline, pricing date, etc. Shareholders are not required to accept any

repurchase offer. However, if they choose to do so, they need to indicate interest by the offer deadline. In an instance when repurchase requests exceed the offer amount, shares are generally repurchased from shareholders on a pro rata basis.

While interval funds present this periodic liquidity, it is not guaranteed that an investor will be able to sell their shares at a given time, or that they will have their entire repurchase request fulfilled. For these reasons, investments in interval funds are generally considered to be longer term and illiquid.

Sample repurchase timeline



For illustrative purposes only. Individual funds will each have their own distinct schedule associated with repurchase offers.

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An interval fund provides liquidity through periodic repurchase offers, for instance, quarterly (not daily). Interval funds are designed for long-term investors and, unlike an investment in a traditional listed closed-end fund, should be considered illiquid. Investors should consider their investment goals, time horizon and risk tolerance before investing.

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