polen capital

Interval Fund 101

1. What is an interval fund?

An interval fund is a type of closed-end fund that buys back shares from shareholders at the fund's net asset value and at predefined intervals. An interval fund is a structure and not a strategy. This structure is particularly well-suited for illiquid and private investment opportunities traditionally only available to large institutional investors. Access to this segment of the market offers the potential for higher returns while also delivering current income and diversification benefits.

2. What are the potential benefits of the interval fund structure?

- Access to illiquid, potentially higher-yielding assets which tend to be limited or restricted from traditional mutual funds
- Nonaccredited, nonqualified investors can invest in this strategy due to less stringent investor criteria
- Low minimum investment with no lock-up or performance fee
- Favorable quarterly liquidity terms, which allow for sizable allocations to less liquid segments of the market
- Tax advantages which include the convenience of 1099 reporting and preferential capital gains treatment due to longer holding periods
- Transparency, regulatory oversight, and frequent valuations, due to the fund's SEC registration

3. Why did Polen launch the Polen Credit Opportunities Fund as an interval fund?

Since 2010, the Fund's investment strategy has aimed to provide compelling risk-adjusted returns and high current income while also offering diversification benefits. Prior to the launch of the Credit Opportunities Fund, access to this high-conviction credit strategy was limited to large institutional clients.

The Credit Opportunities Fund applies the same flexible approach, targeting a broad opportunity set across high yield bonds, leveraged loans, and private credit without the limitations that would apply to a traditional mutual fund. The Fund offers the potential to provide compelling income and returns to a wider range of investors.

4. How do interval funds differ from traditional closed-end mutual funds?

- Traditional closed-end funds trade on an exchange and are typically issued through a one-time initial public offering. By contrast, interval funds are continuously offered and do not trade on an exchange.
- Traditional closed-end funds may trade at a premium or discount to their NAV. Interval funds price at the fund's daily NAV.

5. How do interval funds differ from open-end mutual funds?

- Open-end mutual funds can only hold up to 15% of the portfolio's value in illiquid assets. Interval funds have no limit on illiquid assets, yet tend to hold liquid assets to meet periodic repurchases.

- Open-end mutual funds offer daily liquidity whereas interval funds offer limited liquidity windows.

6. Comparison of interval funds with traditional funds

	Interval Funds	Open-End Fund	Closed-End Fund
SEC-Registration	✓	✓	✓
Investor accreditation	No	No	No
Liquidity	Periodic	Daily	Exchange traded
Ability to continually offer shares	✓	✓	No
Direct Redemption	✓[1]	✓	No[2]
Redemption at NAV	✓	✓	Market price
Daily valuation	✓	✓	✓
Tax Treatment	1099	1099	1099
Access to Illiquid Assets	Unlimited[3]	Limited to 15%	Unlimited

7. Who might consider investing in an interval fund?

Due to the limited liquidity of interval funds, they tend to appeal to patient, long-term investors looking to enhance risk-adjusted returns, strengthen portfolio diversification, and earn an alternative source of income while potentially capturing an attractive liquidity premium.

- Both retail and institutional investors can invest in interval funds. Investors are not subject to accreditation requirements.
- Long-term investors may find interval funds attractive because they can invest in securities and execute strategies that are less liquid yet potentially better aligned with the longer time horizons of such investors.
- Investors willing to accept a reduction in investment liquidity may be compensated for this risk in the form of a liquidity premium.
- Investors seeking attractive options to generate income.

8. What are the unique risks of investing in an interval fund?

As with any investment, investors should familiarize themselves with the unique risks inherent in the vehicle and strategy in which they are investing. The primary risks of an interval fund include liquidity and leverage.

- **Liquidity:** While interval funds periodically repurchase shares, there is no guarantee that investors can sell the desired quantity of shares at the desired interval.
- **Leverage:** Leverage can cause a portfolio to be more volatile than an unlevered portfolio. This strategy has demonstrated robust performance without leverage. The Credit Opportunities Fund has the flexibility to use leverage, but we do not anticipate it to be a meaningful component of the fund. Leverage, if used, will be done on an opportunistic basis when we identify a combination of attractive valuations and relatively inexpensive leverage.

9. How large is the interval fund market?

As of December 31, 2022, the interval fund market totaled $63.5 billion and included 79 funds. The interval fund market expanded meaningfully over the past decade. Interval fund assets grew from approximately $5 billion in mid-2013 to $63.5 billion as of December 31, 2022, with most of this growth powered by credit and real estate strategies.

10. What is driving investor demand for interval funds?

Interval funds appeal to patient, long-term investors looking to increase risk-adjusted returns and enhance portfolio diversification within the structure of an SEC-regulated mutual fund. Investing in illiquid areas of the market can amplify the income and return profile of a broadly diversified portfolio given their low correlation to traditional securities.

1 At specified intervals

2 Shares sold in secondary market

3 Maintains liquid sufficient to meet repurchase offers