

# Interval Fund - Best Practices for a Successful Launch

January 26, 2022

Presented by:



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**Interval Fund and Tender Offer Structure; Liquidity:** Interval and tender offer funds are designed for long-term investors who can accept the special risks associated with such investments. Unlike most closed-end funds, which typically list their shares on a securities exchange, the interval fund and tender offer funds do not intend to list their shares for trading on any securities exchange. As such, investors should not expect any secondary market to develop for the shares. Interval and tender offer CEFs are not intended to be used as trading vehicles. An investment in an interval or tender offer CEF is not suitable for investors who need access to the money they invest.

**Limited Partnerships:** Limited Partnership interests are subject to restrictions on transferability and resale and may not be transferred or resold, except as permitted under the Securities Act of 1933, as amended, and applicable state securities laws. Investors should be aware that they may be required to bear the financial risks of a limited partnership investment for an indefinite period of time. An investment in a limited partnership involves a high degree of risks, including complete loss of principal, adverse and complex tax situations, or the inability to dispose of or otherwise realize upon its portfolio of investments in a profitable manner.

# Before We Begin

- Registrants will receive a link to the replay following the webinar. Feel free to share with colleagues.
- For additional information on CEFs and interval funds, please see our website at [xainvestments.com](https://xainvestments.com) under the Knowledge Bank tab.
- Submit questions at any time during the presentation using the Questions box.

The screenshot displays a webinar interface. On the left, a presentation slide features the XA Investments logo and the title "Interval Fund - Best Practices for a Successful Launch" dated January 26, 2022. On the right, a control panel includes an audio section with "MUTED" status and a "Questions" section with a text input field labeled "Enter questions here" and a "Send" button. Red arrows point from text labels to the "Questions" section and the input field.

Click arrow to open question box

Enter questions in this box

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# Today's Speakers



**Nickolaus P. Darsch**  
Director of Business  
Development  
Ultimus Fund Solutions

Nickolaus Darsch joined Ultimus in July 2019 as Senior Vice President, Business Development. In this position, he focuses on building strategic relationships with investment advisers to help support product, operations and asset growth. Nick is also responsible for contributing to firm growth strategies, market analysis and reporting as well as cultivating partnerships with centers of influence.

Prior to Ultimus, Nick held multiple roles within SS&C Technologies (including predecessor firms DST Systems, ALPS and Boston Financial Data Services) in sales, strategic relationship management, product and research groups. In 2016, he was named a "Rising Star" in the Asset Management industry in by Fund Directions.

Nick received B.S. from Bentley University in Economics and Finance and an MBA from the McCallum Graduate School of Business at Bentley University.



**David L. Williams**  
Partner  
Faegre Drinker Biddle  
& Reath LLP

David Williams represents and counsels clients in the investment management industry, with particular focus on counseling investment advisers on registered investment company fund formation, regulatory requirements and corporate governance. He also counsels institutional investors on fund due diligence and investment management agreement negotiations. A growing part of David's practice is advising global fund managers on environmental, social and governance (ESG) and impact funds, and their unique investment and governance considerations. In addition, David counsels investment advisers on the design and launch of closed-end interval and tender offer funds that enhance distribution channels for advisers.

David has significant experience advising clients on the registration process for, and ongoing regulatory obligations of, continuously offered closed-end funds, including interval funds and tender offer funds.



**Kimberly Flynn**  
Managing Director  
XA Investments LLC

Kimberly Flynn serves as Managing Director at XA Investments, a wholly-owned subsidiary of XMS Capital Partners. She is a partner in the firm and responsible for all product and business development activities.

Previously, Kim was Senior Vice President and Head of Product Development for Nuveen Investments' Global Structured Products Group. In her leadership role at Nuveen, Kim was responsible for asset raising activities through the development of new traditional and alternative investment funds including CEFs, ETFs, UITs and commodity pools.

Kim received her MBA degree from Harvard University and her BBA in Finance and Business Economics, Summa Cum Laude, from the University of Notre Dame in 1999. She received her CFA charter in 2005.

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# Ultimus Fund Solutions

Fund Administrator



An independent, institutional administrator built for today's investment adviser.

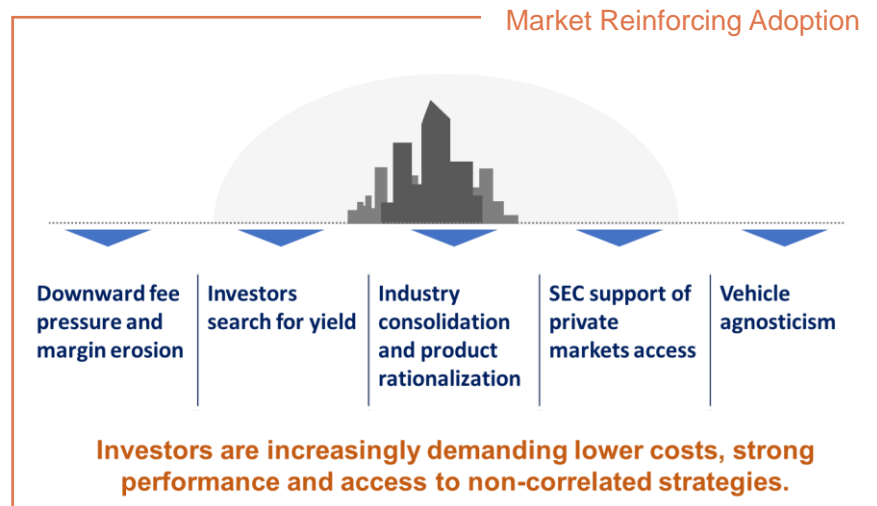
The largest independent administrator | non-bank | non-public | conflict-free | boutique, full-service support model |

## FIRM OVERVIEW

**\$425bn** AUA | **1,450+** funds

- Founded in 1999, headquartered in Cincinnati, OH - 850 employees
- 100% business focus on fund services and investment operations outsourcing
- U.S. based footprint, no operations are offshored or delivered by 3<sup>rd</sup> parties
- Premier Investor Services Agent, supporting over **3.3m investor accounts** as Transfer Agent
- Leading Fund Governance Platform, offering advisors with a turnkey series trust platform to bring new funds to market compliantly and efficiently

**Registered Alternatives** deep track record of supporting the formation and administration of Real Estate, Private Equity, Credit, and Equity strategies with an appetite for a full-service outsourcing model and turnkey trust platform to launch interval and tender offer funds



## Partnership Approach

Deep track record of assisting advisors launch and market new private and '40 Act funds



Develop New Products and Strategies



Manage Costs/Fund Expenses



Navigate Distribution Channels



Operations Transparency & Reporting

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# Faegre Drinker Biddle & Reath



## Legal Counsel

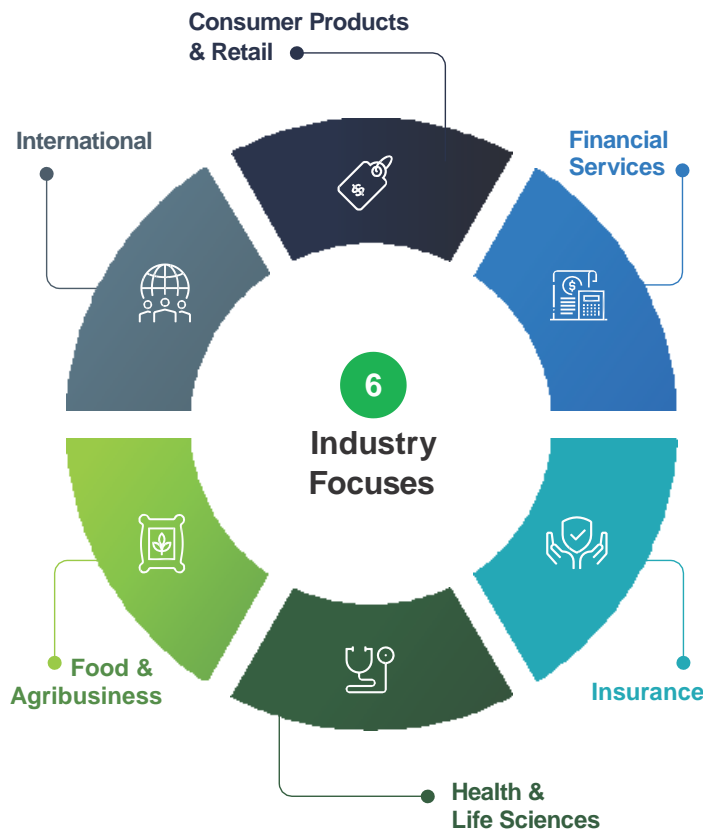
A firm with one shared focus: the client. We understand your priorities. We bring you fresh ideas that work. And we deliver excellence – without arrogance.

21 locations across the U.S., London and Shanghai

1,300 attorneys and consultants

### 14 Service Areas

- Benefits & Executive Compensation
- Corporate
- Environment & Energy
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- Health Care
- Insurance Services
- Intellectual Property
- Investment Management
- Labor & Employment
- Litigation
- Private Client
- Product Liability & Mass Torts
- Real Estate & Construction



### 7 Core Values

- Integrity
- Excellence
- Diversity & Inclusion
- Shared Commitment
- Teamwork & Collaboration
- Mutual Respect
- Service to Others

# XAI Investments

## Consultant to Asset Managers

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### FOCUS ON LISTED CEFS AND INTERVAL FUNDS

- Access to strategies and managers that historically have been available only to large institutional and ultra high net worth investors
- Custom product designs appeal to financial advisors and end investors

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### EXPERIENCED CEF DESIGN AND PRODUCT STRUCTURING TEAM

- Senior leaders have held management roles at notable asset management firms and average over 20 years of experience in financial services
- Proven track record in product design and development with a unique combination of in-depth alternatives and registered fund experience

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### SECONDARY MARKET SUPPORT

- Dedicated team with strong marketing capabilities
- Emphasis on advisor education and serving as a valuable industry resource
- Expertise in alternatives, less liquid and sustainable investments

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### PARTNERSHIP MODEL

- XAI seeks to partner with established investment managers on a sub-advisory or consulting basis
- Demand driven decision making allows us to launch timely new products

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Note: XAI Investments LLC is the Registered Fund Division of XMS Capital Partners, LLC ("XMS"). XMS, established in 2006, is a global, independent financial services firm providing mergers and acquisitions, capital raising and cooperate advisory services to clients. XMS has over 30 professionals on its team and offices in Chicago, Boston and London.

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# What Are Interval Funds?

- Interval CEFs are not listed on an exchange and have a perpetual life.
- An interval CEF is open to investors and may accept new investors daily/weekly/monthly.
- Typically, interval funds are structured with required quarterly share repurchases for no less than 5% of total net assets.
- Share repurchases are at NAV and may be gated with excess demand.

	Mutual Funds	Interval Funds	Listed CEFs
<b>Opportunities to invest</b>	Continuous	Continuous	IPO and secondary market
<b>Pricing mechanism</b>	NAV	NAV	Price: Determined by exchange trading NAV: Most CEFs have Daily NAVs
<b>Redemption opportunities</b>	Daily	Periodic; typically every three, six, or 12 months via share repurchases	Daily trading
<b>Limit on illiquid investments</b>	15%	No limit	No limit
<b>Ability to invest in institutional alternatives</b>	Limited to liquid strategies	Yes, usually reserve liquid assets for share repurchases	Yes
<b>Cash drag potential</b>	Yes	Yes	No
<b>Risk of pro-ration upon exit</b>	No	Yes	No
<b>Known timing at exit</b>	Yes	Subject to pro-ration	Yes
<b>Known price at exit</b>	Yes	Yes	No
<b>Portfolio manager may be a forced seller</b>	Yes	Depends on repurchase requests	No
<b>Tax drag potential</b>	Yes	No	No

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# Closed-End Fund Options

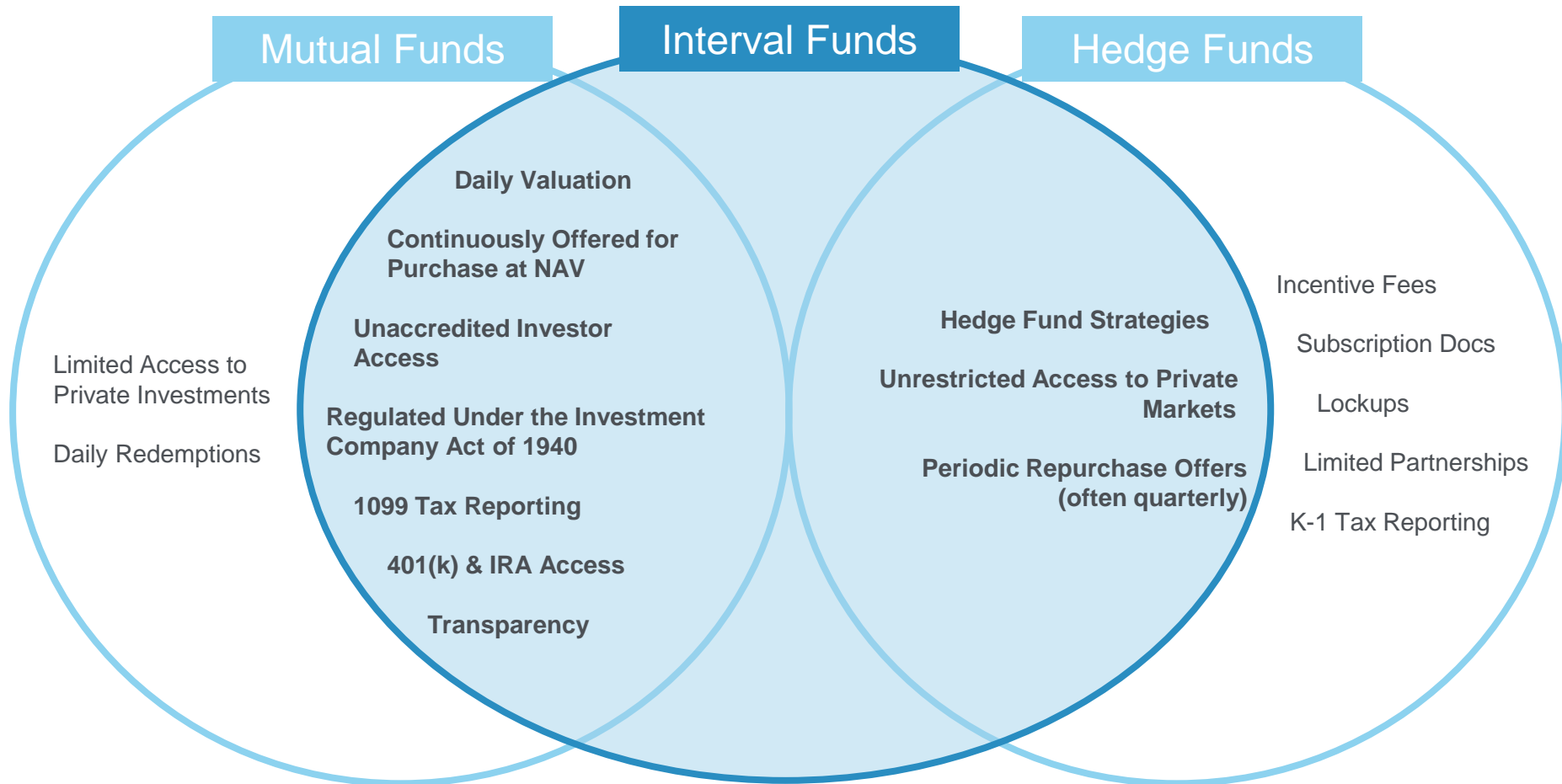
## Comparison of capital raising pathways

	Interval Fund	U.S. Listed CEF
<b>Revenues</b>	High Base Mgmt Fee	Base Mgmt Fee
<b>Upfront Costs</b>	Low	High
<b>Break-Even</b>	2 years	3-4 years
<b>Offering Size</b>	\$100-200mm by yr 3	\$300-500mm at IPO
<b>Seed Capital Needed</b>	No, but helps accelerate	No, but may garner underwriter interest
<b>Permanent Capital</b>	No, sticky	Yes, subject to 12-yr term
<b>Tenders</b>	Yes, 5%+ per quarter	No
<b>Capital Raise</b>	Continuous Offering	Discrete Capital Raise
<b>Sales Team</b>	Adviser Driven Sales Effort	Joint Sales Collaboration
<b>Offering Success</b>	Depends on Sales Effort	Depends on Underwriters
<b>Strategy</b>	Illiquid or Alt Strategy	Traditional with Small Alt %
<b>ESG</b>	Not required	Not required, ESG untested
<b>Yield Required</b>	5%+	6-7%
<b>Leverage</b>	Limited, up to 20%	Typical, up to 40%
<b>Secondary Market</b>	No Premium/Discount	May trade at Discount
<b>Follow-On Offering</b>	N/A	12 mo after registration, at Premium

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# Interval Funds Are Designed to Fit Alternatives

- Given their distinctive structure, interval funds provide a unique set of investor benefits
- Interval funds permit investment in a broader set of alternative investment strategies that can provide enhanced returns and historically low correlation to traditional asset classes



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# Comparison of Launch Economics: Listed CEFs and Interval Funds

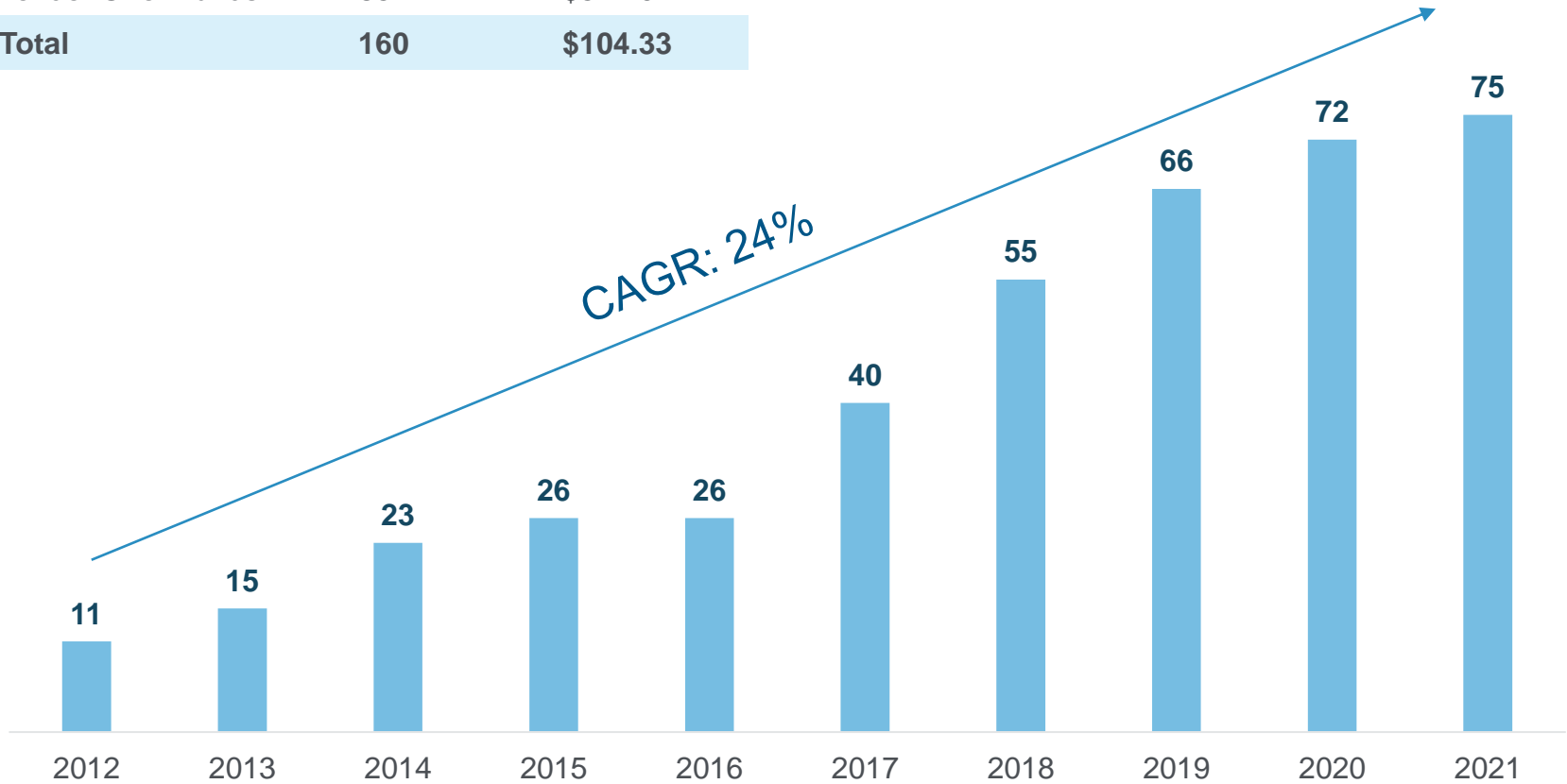
	Listed CEFs	Interval Funds
<b>Term</b>	Typically 12-year or 15-year term with option to continue as perpetual	Perpetual
<b>Upfront Costs or Sales Charges</b>	Up to 3% gross spread paid by fund sponsor	Varies; IBD firms have standardized fee schedules with a sales charge (e.g., 3%) paid by fund shareholders
<b>Share Classes / Upfront Costs Paid by Shareholder</b>	Single Share Class; 0% paid by shareholders	Multiple Share Classes: Class I: No load (higher mins) Class A: 5.75% max sales load, plus shareholder servicing fees and distribution fees Class C: No sales load, but distribution fees Class L: 4.5% max sales load Class T: 3% max sales load, plus shareholder servicing fees and distribution fees
<b>Fee Waiver Paid by Sponsor</b>	Not common	Fee waivers are typically for the first 12-24 months when the fund is not yet scaled
<b>Total Fee Paid by Sponsor</b>	4-5%, varies by offering	If distribution plan involves IBD firms, fund sponsors are required to front the sales loads on behalf of shareholders (3.00-5.00%)
<b>Sponsor Break-even<sup>1</sup></b>	2-4 years Break-even driven by upfront costs for the CEF IPO	1-2 years Break-even driven mainly by fee waivers before the fund is \$100mm+

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# Steady Growth of the Interval Fund Market

Last 10 Years: Number of Interval Funds

	# of Funds	AUM (bn)
Interval Funds	75	\$51.93
Tender Offer Funds	85	\$52.40
<b>Total</b>	<b>160</b>	<b>\$104.33</b>

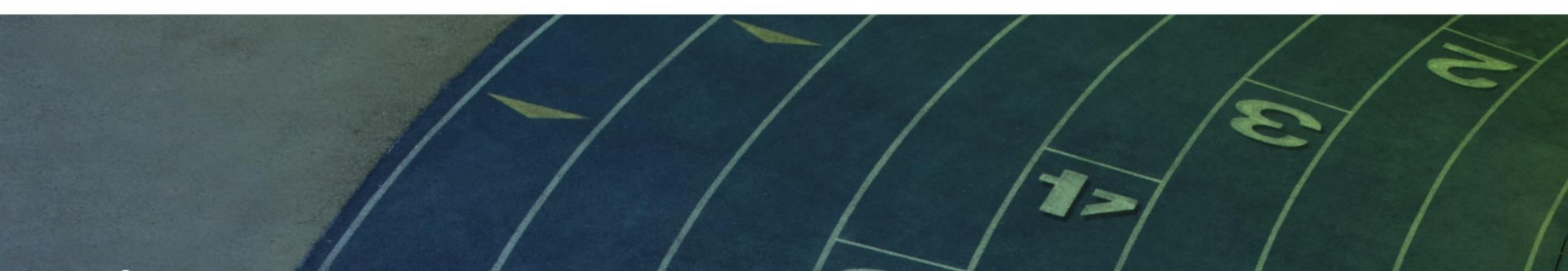
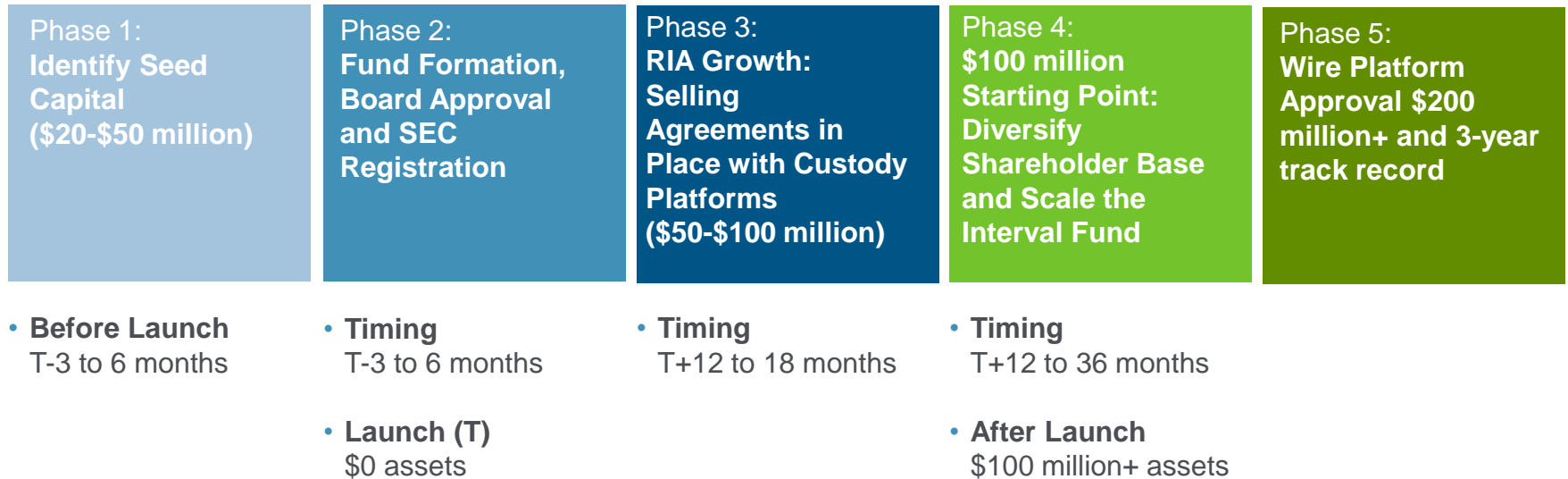


Source: CEFdata.com

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# Life of an Interval Fund

The interval fund has several distinct phases of life that are critical to the fund's growth strategy



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# Seeding Strategies

Mitigate the risks involved with launching an interval fund and lead the capital raising process

## TIMING

## PROCESS

### Option 1: Private Fund

- |             |  |
|-------------|--|
| 6-12 months | <ol style="list-style-type: none"><li>1. Begin with an existing private fund</li><li>2. Structure a registered CEF with an investment substantially similar to the private LP</li><li>3. Transfer private LP assets to the registered CEF strategy via reorganization or contribution upon SEC effectiveness</li></ol> |
|-------------|--|

### Option 2: Seed or Contributed Capital

- |            |   |
|------------|---|
| 3-9 months | <ol style="list-style-type: none"><li>1. Seed the interval fund with investment capital from the fund sponsor, or</li><li>2. Find seed capital from existing clients who understand the risks/rewards of registered fund holdings compared to the private fund holdings</li></ol> |
|------------|---|

### Option 3: Signed Commitments

- |            |  |
|------------|--|
| 1-3 months | <ol style="list-style-type: none"><li>1. Discuss proposed interval fund with current institutional clients in advance of registration</li><li>2. Secure signed "Letter of Intent" letters from institutional investors</li></ol> |
|------------|--|

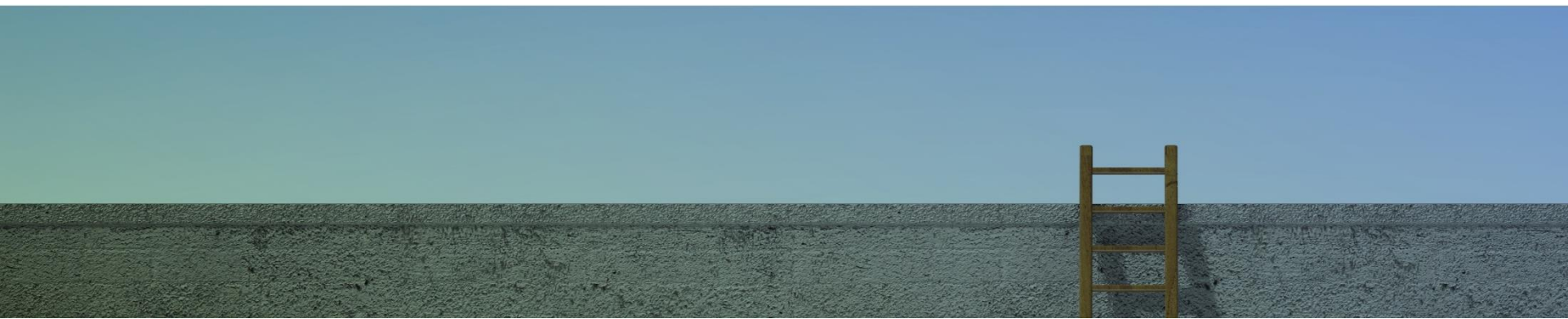
### Option 4: Develop a Strategic Partnership

- |             |  |
|-------------|--|
| 6-18 months | <ol style="list-style-type: none"><li>1. Secure endorsement from an affiliated RIA/IBD platform to gather assets with an exclusive offering for that platform's system, or</li><li>2. Partner with an unaffiliated RIA/IBD firm and provide revenue-sharing for exclusive access to their advisors</li></ol> |
|-------------|--|

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# Contributing Factors to Interval Fund Failure

- Lack of seed capital
- Clone of mutual fund
- Not a compelling story
- Too many liquid securities
- No distributions
- Monthly or quarterly NAV
- No electronic ticketing
- Performance fees
- Poor track record



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# Hallmarks of Successful Interval Funds

- Well-known sponsor
- Demonstration of performance
- Daily NAV and electronic ticketing
- Popular asset class (hard to access)
- No leverage
- No performance fees
- Approved for sale on a major custody platform



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# Contact Our Team with Questions



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321 North Clark Street Suite 2430 Chicago, IL 60654

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# Additional Resources

**What is an interval fund?**

An interval fund is a continuously offered, non-listed CEF structured with a perpetual life. Interval funds provide a flexible wrapper to deliver critical investment solutions to the marketplace. Unlike traditional listed CEFs, interval funds are not exchange-listed and cannot be bought and sold daily in the secondary market. Instead, interval fund shares are purchased through subscriptions from the fund—like mutual funds—and interval funds allow shareholders to sell a portion of their shares back to the fund on periodic basis through "repurchase" at a price based on net asset value (NAV). Such repurchase opportunities occur at certain "intervals," typically every three, six or 12 months. Liquidity requirements must range from 25 to 75% of the total assets within the fund per repurchase period.

Interval funds can host a spectrum of investment strategies, including many that individual investors may find hard to access, such as real estate, structured credit, distressed debt, specialty finance, catastrophe bonds and special situations. Unlike mutual funds, interval funds may invest without limitation in illiquid assets, however, interval fund managers often allocate some fund assets to more liquid securities to meet the periodic liquidity requirements.

Interval funds are subject to day management fees (total more than 1.5% in annual form) fees ranged from 0.5% to 1% (average) ranged from 1.5%.

Individual investors to institutional has increased in recent years as managers look to diversify.

Over the past five years, the interval fund market has experienced explosive growth, reaching \$42.8 billion in assets under management for the period category. The at

**Launching an Interval Fund: Clear-eyed approach critical to a successful launch**

[Read the white paper here](#)

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Interval and Tender Offer Funds offer retail and institutional asset managers an opportunity to differentiate their product lineup and open up new distribution opportunities by expanding access to non-dedicated assets classes in their investment portfolio.

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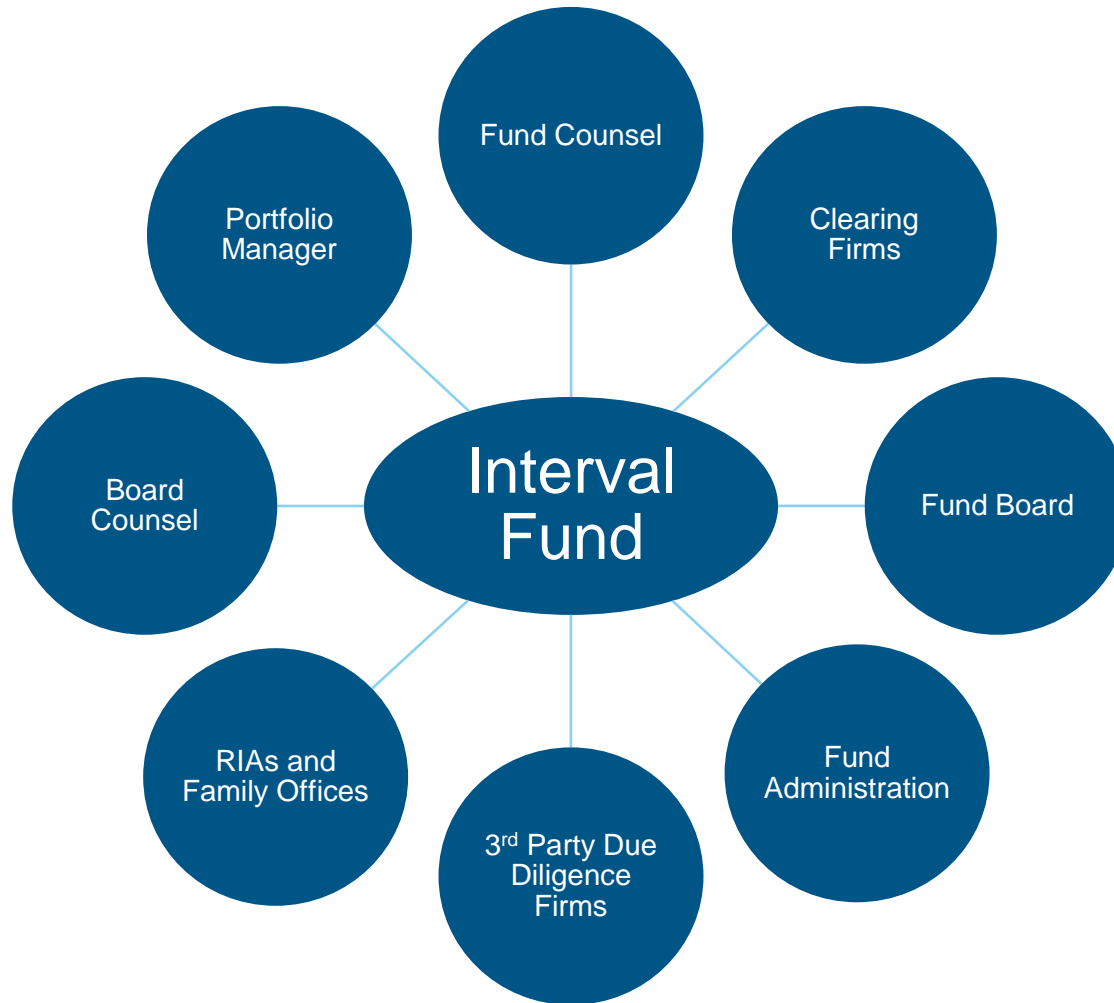
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# Appendix

# Interval Fund Product Development Process

Dynamic, ongoing negotiations with various constituencies to achieve desired outcome



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# Comparison of Interval and Tender Offer Funds

Interval and tender offer funds are sister funds with similar features

<b>Similarities</b>	
<b>Asset Pools</b>	Sticky, long-term capital due to limited liquidity and gated repurchases/tenders
<b>Offering Type</b>	Continuous, best-efforts offering
<b>Channel for Distribution</b>	New funds are launched with seed capital in the RIA and family office channels. Seasoned funds with ~\$100mm+ and 3-5yr track records may be sold in the wires (MS, Wells)
<b>Investors</b>	Sold with multiple share classes to advisors and institutions. No-load to RIAs and Load to IBDs. Fund can limit to accredited investors or qualified clients to allow for more investment and fee flexibility (see “Performance Fees” below)
<b>Number of Investors</b>	New funds have concentrated holdings among a small group of seed/lead investors. Shareholder base grows over time when new clearing firms and selling agreements added
<b>Investment Objective</b>	Total return or income are common objectives. Some funds do not make regular distributions
<b>Key to Launch</b>	Seed/lead capital commitment for \$10-50mm; Clearing agreements with Fidelity and Schwab
<b>Timetable for Capital Raise</b>	Ongoing sales effort required to continue growing the fund over time
<b>Multiple Share Classes</b>	Can apply for multi-class exemptive relief to offer share classes tailored to specific distribution channels, including with sales loads and “12b-1” fees
<b>Master Feeder Structure</b>	Available; able to offer varying sales loads, advisory fees, etc.
<b>Performance Fees</b>	Yes permitted; in the following cases if (1) fund sales are limited to “qualified clients,” or (2) fund charges a “fulcrum fee,” or (3) fund charges an “income incentive fee” based on dividend or interest income

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# Comparison of Interval and Tender Offer Funds

Interval and tender offer funds are sister funds with differences driven by the fund's term, tender frequency, and/or underlying asset class

<i>Differences</i>		
	Interval Funds	Tender Offer Funds
<b>Term</b>	Perpetual	Typically Limited Term or plan for future exchange listing
<b>Permanent Capital</b>	No; Sticky but not permanent assets	If exchange listed, assets become permanent.
<b>Asset Class</b>	Wide variety: Equity, RE, Venture, ILS, Credit	Fund of Funds, PE, RE, Venture, Credit
<b>Shareholder Liquidity</b>	Required, Periodic Repurchases at NAV of 5-25% of outstanding shares. Quarterly for 5% is standard for ~90% of interval funds.	Discretionary Periodic Tenders at NAV Trustees set tender timing and offer amount at any level. Frequency and amounts of tenders among funds vary widely.
<b>NAV Strike Frequency</b>	Typically Daily NAV	Typically not Daily; often Monthly, Quarterly, Semi-annual or Annual NAV
<b>Timing of Tender/Repurchase</b>	Required to make payment within 7 days after repurchase pricing date.	Required to make payment "promptly" after termination of tender offer. Better able to match tender payments with asset liquidity.
<b>Portfolio Liquidity</b>	Leading up to repurchase payment the fund must hold liquid securities equal to 100% of the repurchase offer amount (i.e., 5% of the portfolio) <sup>1</sup>	No specific liquidity constraints except to pay tenders "promptly." As noted above, "promptly" is at the fund Board's discretion.
<b>Required SEC Filings for Tenders</b>	Form N-23c-3	Schedule TO
<b>FINRA Corporate Financing Rule</b>	Not subject to FINRA Rule 5110 for corporate financing terms and underwriting arrangements.	Subject to FINRA Rule 5110. Must file with FINRA regarding underwriting terms and arrangements.
<b>Leverage<sup>2</sup></b>	Up to 33 1/3% with debt, 50% with preferred stock. Borrowings and other debt must mature or provide for redemption, call or repayment prior to any repurchase pricing date.	Up to 33 1/3% with indebtedness, 50% with preferred stock. Much less restrictive than with Interval Funds.

Notes:

1. From the time of the repurchase notice to the pricing date, a minimum of 21 days for each repurchase

2. The 1940 Act restricts issuance of an evidence of indebtedness unless the fund has 300% asset coverage, and preferred stock unless the fund has 200% asset coverage.

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