Read the transcript from the November 6th, 2019 panel session discussion titled: “Interval Closed-End Fund Bootcamp: Learn About the Tremendous Growth in the Use of These Funds for Illiquid Equity & Credit”

Wednesday, November 6, 2019

James Curry, AVP and Sr. Key Account Consultant at SS&C ALPS, Vadim Avdeychik, Counsel at Paul Hastings, and Greg Drose, Executive Director of BD at UMB Fund Services were panelists at the AICA Boot Camp and Round Table held on November 6th in New York City. The moderator of the panel was John Cole Scott, CIO at CEF Advisors and Executive Chairman at AICA. Read the transcript from the discussion below to hear the insight from the panelists.


John Cole Scott


James Curry


Vadim Avdeychik


Greg Drose

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John Cole Scott: I'm actually really excited about this panel and I can't wait to start it. So the first thing, I'm going to do it very simple, we're going to go up the row for things and then down the row. Keep it very fair. Please start. Give us your name, give us your company, and tell us about your history and current perspective on the non-listed closed-end fund coverage, both interval fund and tender offer.

James Curry: Yeah, thanks John. James Curry with SS&C ALPS Registered Fund Services. I'm senior key account consultant and relationship manager. My job is to assist our fund family clients with accessing the various intermediary and broker dealer platforms. And then I also manage those relationships from an intermediary perspective for SS&C ALPS. I've been in the industry about 20 years, about 14 years with ALPS I want to say. We really were on the forefront in terms of adding interval fund products to retail distribution channels. I think Zach Forman is on a panel next with Griffin Capital. He was one of our very first clients that came from the BDC and non-traded REIT space, with this wrapper that had actually already been existence for several years, decades actually, right? And they wanted to put it on essentially a mutual fund platform. And what would that look like with the various intermediaries and broker dealers? And so a success story like Griffin, going from a start-up fund to almost four to five billion in AUM under management. And so I think a lot of the non-traded REIT and BDC guy, the closed-end managers, when they saw that asset growth, not only from Griffin but from Stoneridge, and from Versa, and from Resource Real Estate, and some of the other managers. They said, "It's obviously very viable." You can get into a more retail book on the mutual fund platform because you don't need accredited investors. You don't need qualified investor buyers. And so me as an advisor, I can get you into an alternative asset strategy, but I don't need you to fill out any additional forms. It's bought daily and it's traded daily with a daily NAV, and so I can buy that particular fund for you just like I would any other mutual fund. And so the distribution of these products is really why they've been so very, very successful. And I'll say one more thing if I can John. I don't know if you guys were here earlier and you saw that chart, interval funds? It was like a rocket ship, right? That's because they're hot. They're successful. And they promote that long-term buy and hold strategy, and there's alpha there. And so me as an advisor, me as a financial representative, I can put you into this wrapper, into this vehicle, and know that I'm going to generate some alpha for you. And so that's some of our experience with ALPS and SS&C. We've probably got at least 13 interval funds, 23C3 registered. And if you look at the list of the interval funds that are distributed by third party distributors, SS&C ALPS, we represent probably 60 to 75% of that particular market.

Vadim Avdeychik: Thanks for that. Interval funds are hot. Vadim Avdeychik, Paul Hastings. Paul Hastings is a global law firm. I sit within the investment management group. In the investment management group we oversee all registered fund products, asset managers that are looking and are managing registered fund products including ETFs, mutual funds, closed-end funds. So closed-end funds has been the primary vehicle. Listed closed-end funds that we saw managers being attracted to, because of the static pull of capital. About four or five years ago, we saw that the structure that we discussed earlier that has now changed, where the manager picks up all the fees, was no longer appealing. There's probably a couple of reason for that, trading at a discount was one. The DOL rule that never happened to come about, was probably another rule. I think a lot of the advisors started to get scared, "How do I sell a product to my client when that thing trades at a discount immediately?" So we started to see clients coming to us and saying, "Is there another wrapper where we can go to the market, raise a static pool, and still offer our clients limited liquidity with a daily NAV?" Interval funds have been around since around 1990's, they came about after a study that the SEC did. And the study was a result of, "Closed-end funds trade at a discount, how do we cure that?" So again, four or five years ago, if you talk about interval funds becoming hot, that's exactly when we started to see that. During the same time, we probably saw a limited amount of closed-end fund IPOs. Until this year, there's been almost no closed-end fund IPOs, and I think you saw a lot of managers turn their attention to the interval fund wrapper or the tender offer fund wrapper. We can touch about which is more appropriate for what type of strategy. So that's kind of saying a long way, we at Paul Hastings, we cover asset managers that are looking to launch those type of products.

Greg Drose: Great, thank you. My name's Greg Drose. I'm senior vice president and director of business development at UMB Fund Services. So like James, a service provider. Been there 13 years, I was a client of theirs for five prior to that, and been in this industry now for 32 years. At UMB, we've been servicing a form of interval tender, registered closed-end funds for over 20 years. In 2011, we started about the first turnkey platform for managers to launch and operate these types of structures. I agree with the comments made by both my counterparties up here, that tremendous growth, but it's taken a while. We started that turnkey platform in 2011, and now it's really starting to get scale. And I think there's a few reasons for that. Now in the market, we just did a study with FUSE Research, 800 advisors and a third of them said that they would rather put an alternative type strategy, a less liquid strategy, which these products are primarily designed for, for various reasons I think we'll talk about, in a registered product like an interval or tender fund versus an LP or LLC. They like the registration component because with that comes compliance and oversight, and those types of things. I think from the platform perspective, and James has a lot of experience with that. But same study, the platforms indicated that there's still some challenges with the platforms I think we'll get into as well. But the platforms like them because the advisors or brokers that are putting clients in these products on the platforms are fiduciaries. They still don't really like them on the retail side of their platform, and there's some operational things that we'll get to. But I think at the end of last year, the last study that I saw, there were 53 billion of these funds; interval tender. A hundred and nine funds, but there were 31 in registration at year end as of 2018. And so I think they're coming, they're a new wave. But they're not that well understood, and so we've heard a lot about education on the investor's side. We spend a lot of time and effort educating managers. Because one thing I love about these products, is they're flexible in how you set them up. You can set them up to be valued daily, they can be monthly, they can be quarterly. You can do K-1s, you can do 1099s, and so that's where you need good legal counsel to help you with that. It's not an advertisement, it's really a necessity because there's a lot of flexibility in how you structure these. But with that comes complications, and we'll talk about distribution more as well. I'll stop there for now, John.

John Cole Scott: Great. I'll say just like in 2014 when CEF Data launched, the only list of public BDCs. And then later we offered profile pages for every listed BDC and traditional closed-end fund. We actually are taking our data feed to the AICA Alliance website. And it's not ready today, I had hoped for today, but web programmers can't move mountains. We're going to have a filterable, sortable list of all these non-listed funds on our filter section. There'll be a tab for listed, a tab for non-listed. And we'll have a basic profile page on every non-listed interval or tender offer fund. Now the major challenge for me as an analyzer of funds and buyer of funds for my clients, is there's some really interesting and thoughtful tender offer funds, but they generally don't give me a daily NAV. As I told you earlier, one of the things that I think about when I choose to put client money in an interval fund, is the ability to monitor the correlation of that fund to a BDC or closed-end fund index. So I'm thinking about correlation, and beta, and volatility differences, and I have to think about some of the tender offer funds more like a BDC with a quarterly mark. And I'm just personally not there yet. But I want to let you know, very soon. It's our current top priority besides this conference, is to get that information out there. So that people can hear about interval fund, type in a ticker symbol, type in a name, pull up a list and then start learning about it and benchmarking off of peers. And we hope to eventually create indices in the space for benchmarking purposes, and then maybe talk to Patrick Shaddow about, "Can this be in another index?" So with that in mind, let's jump to another topic. I meant to introduce this panel with that information, I apologize. The next thing, I'd like to have each panel kind of talk about what they think of the differences of tender offer interval fund wrapper, and how they've seen the managers use it differently. Kind of like the SWAT analysis of the each one through your own lens, and where you've seen each of them work well. And kind of the trends in each of those distinctly but similar structure. You want to start first?

Greg Drose: Sure. Statistic-wise, and I promise I'm not all a stat person. But on our platform we have 13 interval funds and only two tender offer funds. When I'm talking to managers, in its most simplistic answer, being in an interval fund you have to in the registration statement, disclose your liquidity requirement. Whereas in a tender offer fund, it's up to the board, you have certain requirements. I'll let them talk about those, but you have mandatory liquidity each year. But basic difference in the structure interval, it's outlined in the registration statement; tender offer fund. The board can declare that and go through that tender process. So that's really the difference in my mind. When we talk to managers, again most of the interval funds we have are daily valued. The tender funds tend to be monthly, quarterly valued. That's one of the primary difference we see. And the trend really is in the interval fund side. I think again, the platforms and advisors, an interval fund's going to act a little bit more like a publicly traded interval fund, what they're used to, and so they like that structure.

Vadim Avdeychik: Thanks for that. Yeah, I tend to agree. I think we are seeing a lot more managers coming to us and asking for advice about interval funds. Now I don't know if the reason for that is because they know that they can distribute that more widely than a tender offer fund, or if that actually fits their investment strategy. If the interval fund and the tender offer fund were created to put a private equity registered product into a wrapper, to me a tender offer fund fits that better, right? A private equity fund does not conduct quarterly or yearly redemptions. Most of them are a long-term horizon funds. If you're looking to provide to a retail investor that type of product, then a wrapper that does not offer that type of liquidity is better for you. Never the less, there are other type of managers that do see interval funds as an attractive vehicle, especially when the closed-end fund market IPO is closed off and there's no activity going on. So if you're going to raise money and you should be raising money out there because that's your job, then interval fund presents a good option. Tender offer fund definitely does provide a lot more flexibility to a manager in terms of when to do repurchases, how much cash to set aside. Keep in mind that an interval fund does need to keep a hundred percent of the repurchase amount in liquid assets leading up to that repurchase. Whereas a tender offer fund does not need to do that. There are a lot more restrictions in terms of how often you need to strike your NAV, whereas a tender offer fund does not need to. So if you're a manager that is looking to raise a closed-end fund of other funds, is interval funds appropriate for you? Are you getting that information from the manager that you're investing with? Maybe not. And then how are you able to satisfy the requirements that are coming from your investors? So that's some of the things that I try to advise clients when they come to me and say, "Hey, which wrapper is appropriate for us?"

James Curry: Yeah, I think from the SS&C ALPS Registered Fund perspective, we follow the dollars. And so when we have potential fund clients come to us and say, "Hey, I want to start an interval fund." The first thing we ask them is, "Well, who do you want to sell it to?" If you're trying to reach Charles Schwab, or advisors at Schwab, or Fidelity, or TD Ameritrade, then that's a retail market. And then if you say in the second sentence, you say, "Yeah, we want to reach Schwab, but then we also want to be as big as Griffin or as big as Versa." And in the tender offer structure, that's just not viable. The platforms dictate that. They don't take the tender offer structure. If you're a tender offer structure, they'll put you on the platform, but for the most part they will qualify your product as an alternative investment. And that means basically that you can't trade on the automated mutual fund platform, which is known as an SEC. You really have to trade on the manual platform, which is called AIP. So if you want to sell your interval fund to Charles Schwab and you want it to be available daily, and you want it to have the success and asset gathering that all the other successful asset managers have like Griffin, and Resources, and Stoneridge, you've got to go with the 23C structure. We've had some clients come to us with continuously offered closed-end structures, with tender offer structures. And what we've seen is that when they come to us with that structure, they really want to get into the other structure, or that that distribution channel through Schwab and Fidelity; but because they don't offer a daily NAV, they can't. And so they're often frustrated because everybody here says, "It's up to the board. It's your choice whether you have a tender structure or an interval fund structure." But really the distribution channel dictates what kind of structure you have. Because you can pick whatever structure you want, but if you're not gathering any assets, it's going to be a dead product.

John Cole Scott: Great, thank you. So I'd say the next - no one wants to see the police yet, it's not happy hour until 5:30. So what I'd say for the next piece of the conversation, I feel like we're at a point where it's really useful. Go into your work both with the fund sponsors themselves, and any of the interactions you've had, especially with the SEC. How do you get the people used to the structure? What's the pushback? How have you found ways to overcome those quick objections to allow these things to actually grow and gain assets and traction? Maybe give some personal experience either by sector or specific name if that's possible for you.

James Curry: Yeah. Well, certainly the first products that came to us were real-estate. Non traded REIT clients who had a successful strategy on the non-traded side, they wanted the 40 Act wrapper on a registered product, and again that's just because of the demand from the advisors. The advisors said, "Hey, if you get us a registered product, we can go deeper in the book for you. Instead of five percent allocation, I can give you 10 or 12." And so again, that advisor demand-driven product kind of structure. But what I think is interesting, John, is that the SEC actually reached out to ALPS about 18 months ago. And what they said to us was, "Look, can you tell us some of the hurdles that these sponsors are facing launching these products? Because we like the structure. We like the fact that it promotes a buy and hold strategy. That people aren't churning these, trying to day trade these like indexes. That Joe Blow investor, little old James Curry can suddenly have access to an alternative investment and I don't have to be a qualified institutional buyer." And so they like the structure, they like the strategy, and they wanted to know what were some of the hurdles that we were facing. And really all the hurdles came back to the distribution component to it. Really, the platforms are the one who really control everything.

John Cole Scott: You mean the custodian?

James Curry: The custodians, right. Yes, so we're talking about Fidelity, Schwab, or TD Ameritrade, or Pershing. They control the distribution, and so ultimately they control what products are being added or not added for distribution.

Vadim Avdeychik: Yeah, a couple of points to make on here. The clients that are coming to us are typically from a private fund landscape, and they're looking to expand their platform and get retail money onto their platform. That's why an interval fund structure or a tender offer fund structure is something that they're exploring. Whenever you're dealing with a manager who's unaccustomed to dealing with the SEC or regulators in general in that process, there's a hurdle that needs to be overcome. You're also dealing with a product that has a board, and has quarterly board meetings. And before you can launch a product, you have to go through the SEC registration statement. And a lot of times what you initially envision your product to look like, will go through comment and response process with the SEC, and you may end up agreeing to something that you didn't initially anticipate to. So those are all the things that I try to advise my clients on, and just try and make sure they understand you're dealing with a regulatory product and you're going to have SEC come around and ask you questions. And explain to them how you believe that this product is appropriate for retail investors if that's where who you're marketing to. In terms of SEC reaching out and asking about interval funds and tender offer funds, I do believe that this is the time where the SEC is open to these products. There's a pension crisis coming in the next 10, 20 years, what have you. SEC understands that retail investors need to have a product that's a buy and hold, and longer type duration product, and they're definitely interested in that. There's a concept release right now that the SEC put out, where they have solicitor comments on various things including interval funds. And we have seen some comments talk about, is it appropriate for interval funds to strike? Do they need to strike daily NAV? Do they need to strike a NAV five days leading up to the repurchase date? Can they also expand other things such as co-investments? I'm not going to get into all that, but I think there is a time right now and it's appropriate for those who are interested in launching this type of product, to have a dialogue perhaps with the SEC or their council and see where this product can go in the future.

Greg Drose: Great. I think from the SEC's perspective, some of the things we've been going back and forth with them on somewhat, I think they're understanding these types of structures a little bit better; the examiners. I'm not the in-house lawyer, but things like adding a share class or having a second share class to one of these structures required exemptive relief. And so we're dealing with a manager who may have a mutual fund or understands mutual funds, they're like, "Well, you can just launch another share class and off you go." Where in these structures, there's a few complications like that. Where it's like, "No, it requires exemptive relief." Now that could be changing, right?

Vadim Avdeychik: I think that's one of the things that has been commented on, yes.

Greg Drose: Yeah, I hope so. From the other side of the equation, we talk about the strategies are built for less liquid alternative strategies. Where managers can take their private funds, those that have private funds, and maybe convert that strategy into one of these structures; interval or tender. And we've done three of those in the last 18 months, and that's good. And so from that standpoint, the SEC's been involved with those from a standpoint of tax-free exchanges and those types of things. We've also seen unfortunately the less liquid, the 20% liquidity a year, allows managers to have their alternative strategies in these structures. But we did have a client who came, got a got you, in that they were fund of funds; a registered fund of funds. And going great for seven or eight years, and then they had a performance blow up. And at that point, investors, they hadn't wanted to get their money back out of the fund. So then all of a sudden all of them wanted out, and after five, six, seven years, most of the investors forgot that, "Hey, guess what? There's limited liquidity." The fund went into what's called proration, and that was talked about a little earlier. But if I wanted all my money out, I may only be able to get two or three percent. And from that standpoint, the SEC came back to the advisor - not us, but asked a lot of questions about education. They said, "That's on you. Your investors should have understood that these are not like a mutual fund, where you have limited liquidity." So anyway, I'll stop there and we can go on.

John Cole Scott: Yeah, I'll add a little color. Because back when I got licensed in 2001, closed-end funds on every platform were common stocks. And we can argue if you're a lawyer, "Well, they're the common stock equity." And they are. We used interval funds for our clients, and at TD Ameritrade, they are bucketed as mutual funds. And while you can say they kind of are, they are one direction, but not the other. So definitely hear what you're saying about that. I serve on my college alumni board. I was brought on the board because they were full of lawyers and accountants, and somebody had to deal with the outside investment manager, which was the largest Wells Fargo branch in the U.S. in Williamsburg, Virginia. And I looked at the portfolio and I saw lots in fine funds, but I didn't like our alt bucket. And so I'm not the only one, but I was one of the many people that really tried to get PFLEX, the PIMCO Flexible Credit Fund on their platform, so I could literally have it in one of the accounts that I cared about. But it's still interesting, it shows up as an open-end fund there too, but it's a credit alt. And it's so interesting, what's the point of that investment? You want something that doesn't act like other things. Obviously an endowment, Stellar Investing is here for a thousand years and longer than anyone's life. It felt like a really good use of the wrapper to us. The only things I heard you talking about is the pushback from some of the custodians we've talked to, trying to help get more funds available was, "Well, back in 2009, didn't one of those things blow up and hurt everybody?" And I think if you go through any investment structure, sector, there's always something that blew up and hurt everybody. It doesn't mean that everything blows up and hurts everybody. In a way, to me it's a call on the custodians to help create a little bit of tech interface on the deposit or buying of the structure. To remind them, or literally create another line item. I know it's a pain, but those here that run interval funds or tender offer funds know that you're paying revenue to the custodians for the privilege for being there. I think there' should be a tech budget. So I'd love for you to think about, how do we avoid the risk of the worst case scenario? As I think what I want this question to be, besides a quick little comment on what you guys just said, how can the Active Investment Company Alliance, somebody trying to balance listed funds, non-listed funds, closed-end funds, BDCs, bring in the 40 Act attorneys, the service providers. What can we do to help make this easier and better in the way a non-profit should, versus any one of our individual efforts? I'd love for you to tell me what we should be doing.

James Curry: Just getting the word out there, John, honestly. Information is key, it's critical. We've come a long way from 2007, when we got started. But when you say interval funds to some people, they still don't know what you're talking about. So I think this is a really great forum to get it out there. Obviously it's a viable product. It's a viable wrapper. It's been proven that it can gain assets, that it's a win-win because it also gives return to the investors. And I don't want to get in trouble with the BDC and non-traded REIT guys, but it's not an eight percent haircut off the top. You can buy an institutional interval fund share class, like you would any regular mutual fund. And so I think education is key. And like to Greg's point, we have a ton of advisors who put their assets or their clients into these products, and then the tender window comes and the fund goes into proration, and they're surprised, or they're upset, or they're angry. And it's because their client wanted to buy a house, or is trying to put mom in a nursing home, and they didn't get a 100% of the liquidity that they asked for. You should have known that going in, that it was a limited liquidity product. And so I think it's just one of those things where education is key in this wrapper. That it's great for everybody once you understand what it is. And really what it is, is it's capped at five percent, and as long as you know that going in, it's going to work out for your long-term. Hopefully, assuming the performance is there.

Vadim Avdeychik: Yeah, education, right? That's the overarching point. I was talking to someone else about it, about another issue, and they're reorganizing a fund and an advisor came to them and said, "Why are you doing this?" And then within the 40 minute phone call, they've been able to explain to them, "Here's the reason." And the advisor said, "Oh, that makes perfect sense." Same thing with interval funds, tender offer funds, you need to educate. And you can't just do it once, you need to continuously do it. You need to have a good website presence. You need to be able to have quarterly calls and, "Here's what's happening with the fund. Here's what we're doing." So if there is a hiccup like proration, no one is surprised. Or if they are, at least they can go back to their retail clients and explain, "Here's why this is happening. It's okay, this is what's going to happen next." Same thing with the custodians. I think the custodians are protective. They don't want to get a call from the SEC, and they don't want to say, "Hey, why did you put our retail clients into it? How are you involved with this product? And why are you involved with a fund that's in proration?" So that will take some time internally because they need to make the powers that be comfortable, that this product is a real product, it's a viable product that needs to be out there. I think with the SEC asking the right questions with the industry coalescing together and educating all the parties involved, I think that'll make a big difference both at the custodian level, at the advisory level, and at the manager level.

Greg Drose: Good. The thing I'd add to that is, I think it'd be great if your group, John, could pull this segment of the industry together. When I say that, I mean from product sponsors, custodians, managers, service providers. Because as James talked about earlier, the tender offer side of the funds, it's manual processing still, and nobody wants to really go through that. But I know we have a lot of smart people in our industry, and I think there just needs to be a group that can get in the DTC, the AIP, and get all the parties involved in managing and servicing and distributing these products a little more cohesive to solve a couple of the challenges. Whether it's education, the operational changes that we have. I just don't know that in my mind, in my opinion, there hasn't' really been a group that's really tied this segment of the industry together.

John Cole Scott: Good, thank you all. That made me think of two things I wanted to make sure we covered. One was, in some ways I didn't want to be on this panel. I wanted other people to give their opinions, but I couldn't find another advisor that was actively using interval funds, and thoughtfully. So how we've thought about them for our income clients or our risk clients, generally we buy two to six percent allocation to traditional listed closed-end funds for listed BDCs, as Nick knows and others have, we're about one to three percent of the account portfolio when it's a diversified portfolio. And we have a similar approach to interval funds, but probably at two percent, because we're not going to trade it. And to me, I think two percent, if you're not in two percent, why are you in the fund? But we typically don't go past four, and four would be an aggressive, very permanent decision. Because we assume we could have an event where we couldn't get out. We must love the sector, love the manager. That's how we've thought of it. So somebody might put 10% in their portfolio. Just like we have a UIT of BDCs. We've sold a lot of it to a lot of advisors, and I always say we typically, where it's tax appropriate, use BDCs, four to maybe 15 to 16%. Depends on risk and income needs. And I met an advisor who had put half of somebody's money in BDCs. I like BDCs, that's probably too much. I think half interval funds is probably too much because of liquidity risk. So I want to just give a little perspective for those that may not have used to them yet, just how we've thought about the risk and how we're applying them in our portfolios. The other thing that came up in the call that I forgot to put in the notes, but I think we have to address, was there were two interval funds that listed this summer. And I think that you could argue one was not the best job, and I'll give you my personal opinion. And one was a pretty good job. The one that was not the best job, I think you guys are aware of both Vertical Capital and RiverNorth's listings? Yeah. So I'll give you my opinion and you can chime in if you choose. This is definitely a more contentious component, but Virgo capital had a backlog of redemption pressures. And it was not a large manager from my understanding, and they just couldn't meet that. They kept having to prorate, prorate, prorate. And there was literally two options, they could either liquidate the entire unlevered mortgage bond portfolio, or they could list. But when they listed, they literally just listed. Their NAV was 12 and change, and they came out at a nine and change. And we end up buying a lot and all our data clients that are in there, they probably bought a lot at seven and change. And now it's back to 10 and change. And one of our future speakers, Bulldog, owns a bit, and he's trying to do something with the fund. I would say that was probably in my opinion, unexperienced manager, didn't have good council or perspective. Would have loved to have helped him six months ago maybe. RiverNorth, you probably know of them. They have a couple of closed-end funds. They run a couple billion dollars of other people's closed-end funds. They have LPs, they've been very successful in creating joint products as well as thematic products. They had an interval fund, RMPLX, it was our last Scott Letter interview. And they decided that they got to 250 million rough assets, and the feedback from them is what I remember them saying, not speaking for them. They wanted to get listed and make it more liquid, and not the focus on it so much, because it's just taking a lot of effort. I'm maybe not a 100% correct, look at their press releases.

And it listed, but they baked in a tender after at NAV, and they maintained a quarterly tender for life. So if you want to be in the fund, you kind of have that NAV anchoring possible for you like the original structure. But if you want to get in and out, optimistically as a trader that is now available to you. Again, it's trading okay. I think at eight discount last I looked. Not bad considering these are the first two times an interval fund's ever listed on the New York Stock Exchange. And say it's a pathway to possible future listed funds, and an interesting co-mingling of the listed, non-listed universe. So that was a lot because we obviously dealt with it a lot with our folks. If you have any perspective on that, that want to add, you're welcome to. Or if you don't feel like it, that's find as well.

James Curry: I think what I'll say John, is that RiverNorth is one of our clients. They actually didn't distribute their Marketplace Lending Interval Fund with us, they actually just chose another service provider. But just in talking to John Moore and Allen Webb over there at RiverNorth, at the end of the day, they listed it. They got what they wanted to do, but in terms of liquidity, the other side still isn't there, right? So they're still in proration. If you're holding shares of that fund, you're getting prorated at 25%. So it's a viable option. We've certainly heard others say, "Maybe we should list our interval fund on an exchange." And I think a lot of people are trying to see what actually goes on with RiverNorth Marketplace Lending, to see if it's something that they want to do too.

Vadim Avdeychik: I guess I would just add something that I touched on earlier. I think it's important for the manager to understand the product and know what they're getting into, and make sure that the strategy is actually able to live within that wrapper. I think what happens a lot of times is that a manager gets into something because somebody says, "We can sell a lot of it."

And they get there and they find out, "Hey, this strategy doesn't really work very well." So I think it's important to understand. I guess the one question I would have, if you really looking to launch an interval fund, what is the listing? I mean, the listing is not the same thing as an interval fund is.

Greg Drose: Only thing I'd add there is I think almost every fund that we service in the registration statement has the option to list at some point. I think typically 10 years down the road, they put a timeframe around it. So it's just another element that if it happens, it's probably going to be a surprise to the advisor and the end shareholder. Because I doubt people are reading into page 27, 28 of the registration statement.

John Cole Scott: I agree. So I always have questions, but would love for the audience to ask any questions.

Audience: I'm sitting here and listening about the funds, and sales, and the listing, and the advantages, and not once did anyone talk about compliance and compliance risk. And that's the major downside, or warning the managers about the compliance and the added cost and drag of compliance. I found that very interesting because that's a huge barrier to entry, and somebody that I'd be warning my clients about. And frankly I find them ill prepared when they decide to go down this path. So what do you do to prepare your clients, particularly the attorney? But just in general when you decide to flip that switch, a lot of private fund managers have no clue when they decide to go down this path. And the cost to the investor when you decide to list.

Vadim Avdeychik: Yeah. I guess as an attorney, I'll take that. As I noted earlier, I think when managers come to us for advice in terms of their wrapper, we always advise them about dealing with the SEC, dealing with a registered fund product. You're now subject to the 40 Act, which is no light issue to take, so we definitely advise our clients in terms of that. But keep in mind, a lot of our clients are also private fund managers, so they're already familiar with the registration process, dealing with the SEC, having a compliance program. Now you obviously have to overlay now registered fund compliance on top of that, but I think my counterparts here do a phenomenal job of providing a lot of solutions for managers wanting to get into that space, and educating them as well, and providing a one-stop solution for compliance.

Greg Drose: I'd just say, I just don't think we've gotten there yet. But I know there's not one conversation I'm in with a manager wanting to go down this route, where we've got a hit on the cost. Because they're not inexpensive products to launch and operate, and if you don't have asset scale to get to break evens, which they can be very, very high. Then we'd probably talk more managers out of doing these than go down that route. Because with registration comes oversight, compliance, cost. And we even have our private fund managers start looking at these, and they're surprised at what the cost can be. So again, it comes back really to distribution and assets. And I don't know the exact stat, but I think most of the assets in this space are in the top ten managers. And there's been a lot of fund closures because they just can't get the scale to cover the cost of a registered product.

James Curry: Yeah, and I think that's distribution related though, right? A lot of the platforms, they're only used to be about maybe five of these. And the process at the intermediaries, it was an exception process because everything was automated. But for interval funds, they have to take a person off the line to do things manually; to collect the tender notices, and to turn on the redemption window that day. And so now all of a sudden when there's 35, or how many interval funds now, 150? Trying to come to market, there's a lot more exception processes that the platforms are having to incur. But I would agree, when we have prospect calls and they say, "Hey, we want to launch an interval fund." And they're like, "Okay, who's going to pay for that?" "What about BlueSky?" "Well, who's going to pay for that?" And we're like, "No, you're going to pay for that." They're like, "Where are the offering costs at?" We're like, "There aren't any offering costs. That's coming out of your management fee." So absolutely, great point. Great point.

Greg Drose: One other quick point, and thank you for touching on it, is the expense ratios. That's one of the things that the platforms cite. But when managers go down this route, with the fee pressure on all of you, all of us, everyone in this room, and things moving towards ETFs, lower cost, these are not low expense ratio products. So again, it comes back to education. Because you're trying to put a strategy that's not readily available, a little less liquid, complicated. And unless that makes sense to the investor, they're not going to want to pay the 1.8, two, two plus that some of these products have as expense ratio.

James Curry: That's why you buy it, right? You're getting into it because...

Vadim Avdeychik: It offers something that you can't get. It offers something that you can't get in an ETF for 30 basis points.

John Cole Scott: Let me just pull up our data. For all the interval funds, the average expense ratio is 2.7.

Audience: Throughout this conversation there's been a discussion about accessibility. What are ALPS, UMB, UBS, what are you guys doing to make the interval funds more accessible for investors? Of course, click-throughs, restrictions, redemptions, or repurchases. Because one of the issues with the asset, or with the structure, is a lack of assets. In reality a lot of the interval funds right now are sitting in seed assets, or contributing to private fund assets. They have subscriptions that sponsors would like to see. And part of that is it's been referenced, it's still a manual subscription, a manual repurchase process, and it's been a few years. When are the service providers going to step in and provide those click-through processes? Because sponsors would love to see it, but we can't create that.

John Cole Scott: I'll start with just some things I've done. I've reached out to every TD Ameritrade RM and I've said, "Two things. One, you guys are some of the best places for listed closed-end funds," personal bullet-points why. "And did you know you actually had a person at TD Ameritrade that spoke at the ICI Closed-End Fund Conference, specifically about the prorata mechanism for them?" And that they required to have very good look at why are you using the interval fund? Is interval fund the actual best wrapper for your strategy? And it's the same feedback from the SEC. Why are you doing this? To charge more fees or because it solves the right problems? So my conversations have been going to the people I know, to say, "Hey, make it easier for me. I can tell you how to make it easier for other advisors by giving those options." It was amazing to me that GSO Blackstone couldn't get on the TD platform as fast as you'd GSO Blackstone could. And so it's not just service providers, it is. We have to press our relationships. We've got to talk to the people that we say, "Here's the why." You want investors to have actually access to alts that can handle a problem. The interval fund is not perfect for everything, but it does solve that issue. When we had the volatility pick up last year in the fourth quarter, and on our profile pages for interval funds, we show the NAV total return chart versus our taxable bond index. You can prove why they make sense in bad markets. And yet I had somebody reply to my research call last week, "Well, I don't like interval funds because they underperform and I can't sell them." I go, "Well, then you're not the guy for interval funds. If you want to capture discounts, you're not the guy." And the point of this panel and this organization is to bring everyone together so you can learn what you should be doing for what parts of your mechanism. So may answer is, more people ask the questions of getting it on the platform. If you find it on a platform, you can leverage your relationship. Tell another custodian, "Well, they have it. Do you want me to move my business?" I mean, you can't say that every year. But as RAA's, I tell my clients, "I picked TD Ameritrade for five reasons. They make this easy, and this easy, and this easy." They're not perfect. They don't pay as well in cash and their margin rates suck. They don't say that as a press release, but they're choosing to do different things. There's a reason I've chosen them. There's a reason you've all chosen your own custodians for your work. So push on the custodians, try to show the need. In a way, we should be getting Skip Schweiss, he's a TD Ameritrade advocate guy. I need to figure out how to get him to care about interval funds, that's a way to move the needle.

Greg Drose: It's a great question. I would say this, at UMB, we've actually spent over seven figures automating the subscription process from our end, but that's a direct investment. And as you all know, and I was an investment advisor once, if I want to allocate to a strategy, I want to hit a button. I don't want to do this one off allocation. And as James referenced earlier, interval and tender funds really don't work on the platforms. But unless an interval fund is daily valued, which means it has to be a strategy that can be daily valued. Which kind of counterbalances some of the reasons to have them.

James Curry: Got to get creative.

Greg Drose: Then it becomes a manual process. So I guess what I'm saying is I think the industry is trying. I know we're trying. I know SS&C APLS, everyone's trying. But when I said earlier, it's got to come together, that's one of the things. Until we have straight through processing, it's going to be very, very tough for the custodians and platforms to really operationally open up. That's my take. James, do you have…?

James Curry: No, I've got nothing to add on that.

John Cole Scott: All right, time for one more question.

Audience: Just in terms of structure. So it seems that a structure just like RiverNorth Marketplace Lending Fund listed with a quarterly tender. It seems like that structure would be ideal in many ways, as far as the SEC, and servicing and investors. Namely, where you have a fund which has a periodic liquidity opportunity, such as an interval fund. But if you so choose, you could sell at daily market for whatever the market allows. Has that structure been taken through the ringer with the SEC? Or is there any sense of any barriers that would exist to that becoming more prevalent?

Vadim Avdeychik: I can't comment on that directly, but I can say that there is another product that we haven't touched on here, which is called an auction fund. NASDAQ actually runs that program. And what it allows investors to do instead of going directly to the manager, allows to have an auction process. Where you can meet willing buyers and sellers, and then NASDAQ, I believe then facilitates that process. And they come together to sell their shares. We haven't seen that product take off. I've heard about it about a year ago. I think there may be some funds out there in sort of registration. So yeah, I think there are people thinking about that, and there's definitely others who are trying to come up with a creative solution. To your point about the SEC. Look, the SEC is all about shareholders. So if there's a way for shareholders to have their cake and eat it too, then why not?

John Cole Scott: How about everyone just give a 15 second takeaway?**James Curry:** Certainly at SS&C ALPS, we're obviously very married to these products and these solutions. Thank you for bringing light to these products, and some of the struggles that product sponsors and service providers have to go through in terms of getting these products to market. So certainly thank you all for your participation and for allowing us to be here today.

Vadim Avdeychik: Absolutely. Thank you for putting this together. I think it's important to educate the market and higher good council when you launch a new fund.

Greg Drose: Not much to add, except just reiterate distribution is just paramount in this space because of the cost elements that we talked about. And until I think that's solved, it's going to be still a fairly specialized area.

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