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PRESENTATION

Operator

Hello, everyone, and welcome to today's SS&C webinar, Understanding the Nuances of Interval Funds. I am your Zoom operator today. (Operator Instructions)

Before we get started, I'll just go over a few housekeeping rules. Today's webinar is being recorded. All attendees will be muted throughout the webinar. You are welcome to send across any questions using the Q&A function at the bottom of your screen. All Q&A will be addressed after the presentation. And finally, this webinar presentation and discussion are off the record. We request that no person or firm is attributed with specific quotes.

I will now hand you over to today's moderator, Jason Vaughn, Strategic Enterprise Sales Executive at SS&C. Over to you, Jason.

Jason Vaughn

Thank you very much. First off, I wanted to thank each of you all for taking the time to attend today. We're excited for our great lineup of speakers and content. Two quick housekeeping items I wanted to cover. First is as we discussed earlier here, we will work to address questions at the end of our presentation here today. And second one is the views and opinions expressed by today's panelists are their own and do not reflect the views of SS&C.

Our panelists today are Randy Anderson, President of Griffin Capital Asset Management Company; Rob Velotta, Partner, Cohen & Company; Sean McLean, SVP, Director of Fund Accounting, SS&C ALPS; Rick Noyes, General Counsel, SS&C ALPS.

So today, we really are going to dive in, focus in on really the nuances of annual funds. We've got a great panel with tons of expertise across these folks and hope to provide a good insight on the nuances really of an interval fund, how it operates and considerations to think about.

So first, we're going to start focusing on product sponsor. So we're going to dive to Randy Anderson, who's going to help us talk a little bit about the future of alternative investments and interval funds in this today's environment.

Randy, why don't you take just a minute to introduce yourself to the audience, please?

Randy Iner Anderson *- Griffin Capital Company, LLC - Chief Economist*

Thank you so much. And first, I just want to say thank you for inviting me to this panel. We've been here at Griffin Capital working interval fund space for quite a while. And I just really appreciate being asked to be on the panel. I do want to say that our relationship with your firm has been tremendous. We get tremendous service, whether it's accounting, whether it's tax, whether it's distribution, it's really -- it really has made a difference in our business.

Just quickly about me, I am President of and Co-Founder of our Fund Group at Griffin Capital. We have a real estate interval fund. That's around shy of $4 billion of assets under management. We have a creditable fund. It's a joint venture with Bain. It's about a little over $400 million in assets under management. Griffin, itself, has been around about 25 years. Pre-Griffin, I spent half of my life really as an academic and a professor and consultant. Left and ran research for a lot of the large -- a couple of large real estate investment shops. And then also did quite a few things in the direct credit space and the direct real estate asset space as well.

Sort of getting right to it today. I'll tell you that it's interesting. You can see the first two bullets talk about investor attraction and investor attraction. It sure didn't feel that way 7 or 8 years ago. I'm actually sitting here today and joined by my co-founder, Spencer Propper, and we were sitting at a lot of meetings where people were looking at alternative investments. And the only people that would be in the room for interval funds were sponsors themselves. Nobody really cared about it, sort of the traditional non-traded REIT, the traditional BDC, the traditional Reg D products had all the attention. And nobody really cared. I do tell you, though, with some changes in regulation that ultimately impacted some of those products in terms of transparency of pricing, liquidity and fees led to a lot of attention for investor attention and attraction to interval funds.

Interval funds themselves, they're very transparent. I mean, what's nice about them is that we price interval funds every day with ALPS. So a person can look on their phone screen and see if it's going up or down. If the sponsor or the product is working as it's supposed to work in the market, and that's nice. A lot of these interval funds have liquid, but yet less liquid products, which I'll touch on momentarily. Sometimes in a less liquid product, you may have to wait 5, 10 years to figure out how your investment is doing. So that's really nice to have that transparency there. Also a degree of liquidity. A lot of times, these interval funds have been structured around all alternatives and a lot of alternatives that are less liquid in nature have no liquidity. And that works really nice. You hear a lot of conversations about the endowment model and how well Yale and others do with that. But individuals don't have that much money, generally speaking, even smaller endowments don't have that much money, many times. And it's nice to be able to have some liquidity because things could happen. You could be in a situation where something is great. Your child gets into a wonderful school or something bad. In any case, you may want some of that capital or you just may want to rebalance your portfolio because you think there's better opportunities out there. So interval funds have the sort of mandatory liquidity that happens.

Now I won't go into the details. There's a lot of regs on how you provide that liquidity, but effectively for our space, most people offer somewhere in the minimum of about 5% liquidity once a quarter or about a minimum of 20% per year, and that's quite a bit of liquidity in the books and really is nice when you're talking about alternative investments.

People often ask me, when might you use an interval fund? And I'll tell you that I'm product wrapper agnostic. Interval funds is just a wrapper, but it's a really good wrapper. What I would tell you that if you have a product that has all the underlying assets that are daily liquid. But in a daily liquid product, there's no reason to hold up the investor liquidity in that point of view. If you have a product that is mostly or perhaps best suited to be investing in private securities only, then put it in a different private wrapper where you sort of don't have a liquidity mismatch. What's important is to build an investment that makes sense. And in certain cases, a combination of liquid with less liquid securities work really well together from like a research point of view. As an interval fund itself, it's only as good as the quality of the underlying investment strategy. So what we've seen is that -- and I'll talk about it a little bit later, again, but we've seen a lot of things like real estate where you can invest, both privately and public, and the research shows that it gives you a good risk-adjusted return. You see credit where there's more liquid opportunities combined with some less liquid opportunities that can create, again, really strong risk-adjusted returns, really strong income yields, if you will. And that's what makes interval fund a good wrapper for those kinds of products.

One of the interesting things about this panel is people ask me a lot of times to be at interval fund panels. And ALPS those is better, and SS&C knows us better than almost anyone, is that when you talk about it, it's the nuance. And they've built out a team to handle all kinds of nuances because an interval fund could be a lot of things. It could be a credit product. It could be an insurance-linked product. It could be a very aggressive strategy. It can be a very conservative strategy, so we even get requests here at Griffin 6.5 years later, somebody is going to want us to compare our interval fund to somebody's credit fund to some insurance-linked product. That's -- the correlator to that is comparing, "Hey, I want to know how your large-cap growth stock is doing relative to a short-term bond form" They just have really nothing to do with each other, although they both may be mutual funds, our interval fund is just a wrapper. So you got to be careful what's under the hood. And even ones that are, say, real estate funds, they're not all the same either. So you got to look at the underlying composition of the assets, the risk that's being taken and the quality ultimately of the assets will ultimately determine your long-term success.

A couple of other things on distribution considerations, and I kind of love distribution considerations in with the current landscape. What happened was at anytime somebody gets a little bit of success or there's some success around raising capital, more and more entrants are in the marketplace today. So there's 68 roughly active interval funds. There's another 33 in registration according to intervalfund.com. And that's a lot compared to just a handful that we had before. People saw that a few firms, particularly initially in the insurance like space, in the real estate space, raise a lot of money. And so today, instead of just being a cottage industry, basically all the household dames that you think of from asset managers, whether it be alternative asset managers or more traditional asset managers are either in the market or in the process of moving and bringing product to the market, which I think lends a lot of credibility into it. You've seen the biggest and largest best managers over time go, "Hey, this is a structure that can make sense in certain circumstances and move to that market."

In general, when you're looking at raising capital, it's a very intensive process. You need to get scale so you can execute your strategy and you need to get scale in order to make some money, too. And also, it's important from a liquidity point of view. Your 5% liquidity quarter is very different at $100 million versus $10 billion. So the degree of liquidity is also related in some sense to getting scale. So the first thing is, and we use services within -- with ALPS SS&C, getting on all the platforms. So you've got your Parsons and your Schwabs and your Fidelis, if you can't connect the pipes, you can't make a trade. So you got to make sure that you have those kind of agreements in place.

You also -- if you're going to attack the independent broker-dealer channel, you need to get selling agreements with all those independent broker-dealers out there as well. So they themselves can make a trade. If you go to the RIA space, well, the RIA space is great, It's varied, small RIAs to very, very large RIAs and you have to have a plan in order to attack and address their needs and concerns, generally looking for long-term asset allocations. And quite frankly, recently, the wire houses have become very involved interval funds, too, trying to offer a wide array of products that can meet investor demands. That's all very labor intensive. So to be successful in raising it, we found that having a lot of boots on the ground, both external wholesalers and internal wholesalers, people working in national accounts has been very, very key to success.

I think really kind of putting a fine point on it is I think that the industry is going to grow. I think it's going to do really well. But it's not as easy as you think. So I mentioned all those interval funds that are out there, 68 active and 33 in registration. There's really only -- really less than or around 10, the numbers move kind of on a daily basis. There's approximately 10 that are at $1 billion and above. There is a whole bunch of interval funds out there that just have tens of millions of dollars in there, 100 -- maybe $100 million in there. Those don't really economically work very well from a long period of time. So to be successful, you want to know that your strategy makes sense, that the interval fund is the right wrapper and to figure out a way in which you can achieve economies of scale because it's good for both you as a sponsor, but most importantly, it's good as an investment fiduciary for your ultimate clients to be at the right level of investment success.

We've such wonderful panelists, I could talk all day on this topic. And hopefully, in Q&A, I'll get a chance to come back. But I'll tell you one of the most complicated and also very important parts of working on these funds is things like valuation and taxation.

We've got a wonderful -- we got a wonderful lawyer, a wonderful tax expert coming up next. And so it's my pleasure to turn over my portion we call to Rob.

Robert Velotta

Thank you, Randy, and thank you to the SS&C ALPS' crew for having me join the webinar today.

By way of background, I am a partner with Cohen & Company, where I specialized in the investment industry. As I like to describe it, I work with investment managers and the products they manage, which runs a variety of products, but I'm spending a significant amount of time recently with some of the 33 registrants that may be out there that Randy referred to in the interval fund space.

When I talk to clients about starting an interval fund or being involved in the interval funds space, the easiest comparison that we really get into is is why would I do that versus setting up a private partnership? And that's really the conversation that I have with a lot of my clients. And the discussion really is, if I'm going to go through the energy and trouble of registering with the SEC and setting up an interval product, can you just tell me a little bit about what the benefits of that are?

And when you look at it, I think the first thing we'll spend time talking about is just how are they different and similar to a private partnership. Both of these are continuously offered, albeit not with the liquidity of a daily mutual fund, but they are continuously offered, not unlike a closed-end fund. The interval fund is also very simple to buy, right? It's an investment, and it's successful to investors. So they're able to purchase the interval fund in a very simple manner. Kind of in contrast to the private partnership, which you have the subscription documents and all of the related requirements there.

Another big difference with respect to the private partnership and the interval fund is how the fund is taxed. A private partnership is taxed as a partnership and the investor gets a Schedule K-1. So Schedule K-1 shows your ratable share of interest dividends, capital gains, et cetera, as well as expenses, whereas the 1099 is really shown around the dividend, meaning that if the fund goes through the energy and effort of being taxed as a regulated investment company, which virtually all the interval funds are, you get the benefit of having a tax-efficient product, but also have the 1099 to investors.

To the extent that the funds are invested in, anything that might be a little bit esoteric, potentially some real estate holdings, some different kind of lending arrangements. The interval fund also serves as a blocker. And what that means is that certain things that the fund does doesn't end up creating tax issues to the investor. Things like unrelated business income tax for tax-exempt investors, certain things around effectively connected income and potential taxation for U.S. investors or even as simple as being exposed to state taxation, all kids really blocked by virtue of being invested in an interval fund. Similarly, there are interval funds that could have a performance fee. Certainly, you're going to want to spend some time working with your attorney around what kind of performance fee can be charged but you may be limited to a credit investors in that kind of structure. But certainly, interval funds, we have seen them have performance fees attached to that.

So the next section I really want to talk about when jumping from the comparison of private partnerships, and we'll spend some time around these particular subjects on this slide later, but some of the benefits that we see around the interval funds. A lot of people have viewed the interval funds as kind of an evolution of the liquid alternatives. So there was obviously a trend a few years ago around liquid alternatives. And what's happened is really we've seen a movement from those liquid alts into the interval fund structure, really for a variety of reasons. Number one, you see this interest in the interval fund structure because if there's -- assets are less liquid investments. So because you don't need to facilitate daily liquidity of the fund, the fund is able to invest in things that may not be as liquid. Similarly, the reduction frequency and limitations that an interval fund may have could allow an investment adviser to set up a fund and be able to manage for with a more long-term horizon than something with a daily alt fund might have. So for example, you may see monthly or quarterly, most likely, redemption frequencies in these type of funds.

There is also a consideration around less tax drag. Because you don't have daily liquidity and the investors can't come in and leave every single day, you don't have a daily redemption that would cause a fund necessarily to have the tax drag around disposition activity. And then finally, we do spend a lot of time talking to our clients about really, what can you invest in? And the reality is a fund, an interval fund, can invest in pretty much anything that is a security. And that is really governed under the tax rules. And because of the certain limitations about being taxed as a regulated investment company. Really anything a fund wants to invest in that represents a security, whether it's equities or debt securities or even investments in certain partnerships we'll get into later, allows a fund -- an investor to get exposure to those type of fairly illiquid investments that they might not otherwise be able to get.

With that, what I'm going to do is turn over the presentation to Rick to start talking a little bit about some of the legal nuances for the funds.

Rick Noyes

Sure. Thanks a lot. Rick Noyes here, General Counsel at ALPS. And I support client initiatives to launch mutual funds, ETFs and interval funds as well. So we get to see a lot. I get to see a lot in terms of the product development aspect of this. And that's something that -- we're talking about Rule 23(c)(3) here that really provided, and this was in 1993, the runway for this type of closed-end fund. By definition, we're a closed-end fund. We're registered on Form N-2. And then you start kind of very much blending the characteristics of open-end funds and closed-end funds. And some would say, you get the best of both. With a continuous offering comes along with the annual update requirement, so similar to an open-end fund, investors are continuing to get an updated prospectus. The transparency that Randy mentioned that's helped the success of these products is built right into the rule here. You don't have the requirement for annual meetings. You don't have an IPO, typically non-exchange listing. So some of the challenges in the pure closed-end fund space are just not present with interval funds. You've got some flexibility on striking a NAV. If the requirement under the rule is weekly. Although we typically -- and I think where the industry is, is a daily strike of an NAV. And one of the nuances there is even if you did select a weekly NAV, as you go up to one of your repurchase offers, you're going to need to strike that NAV for the 5 days preceding that repurchased deadline. So again, there's nuances. But in many cases, they look similar to the open-end fund structure.

A lot of elements that you know in the 40 Act, open-end fund space, you've got the fund governance rules, your 15(c) advisory agreement approval process, you have (inaudible) transaction rules. You've got many things that really do align with open-end funds. And that's where we certainly found that managers who are experienced in the traditional mutual fund base can have some success getting their minds around the structure of these particular funds. So that's certainly helpful in a product launch project.

One nuance that I want to talk about here structurally is that these do live in separate trusts. You may be customed to an open-end fund that can launch additional series off the trust. But in this case, every new interval fund that you launch is sitting in a separate trust. Practically speaking, what that means is that you've got probably a longer runway to registration. The SEC has to declare your registration effective in the case of a launch under a new trust, whereas once you're established an open-end mutual fund and you've got series portfolios, generally you're on a 75-day timeline to registration. So that does add a bit more process in launching new funds. And certainly would be a note to make for getting product development right at the get-go since you do have additional steps there. And that also includes a seed audit as well. So again, that's an important nuance on how structurally these look.

When you move into some of the details on purchases and redemptions, you see really how it follows the rule of 23(c)(3) and there's very specific dates and time lines involved. Starting from the baseline that we had a continuously offered product, as a fundamental policy of the fund, there needs to be at least 1 repurchase event a year. And so you select 3-, 6- or 12-month intervals. What we typically see, and I think where the industry is going generally is quarterly repurchase offers. That provides some predictability in the product and also for the various platforms, where these products might be sold.

As Randy mentioned at the beginning, the repurchase offer per the rule is somewhere between 5% and -- to 25% of outstanding shares of the fund. You have to provide shareholders a notice that you're going to be repurchasing shares. And the minimum notice required is 21 days, up to a max of 42 days. And you need to file a notice with the SEC within 3 business days of that impending repurchase event.

Now, one of the nuances here, again, is with disclosure what we see and what's critically important is a road map to what your closed-end fund, what your interval fund has selected for repurchase cadence, whether it is once a year, whether it is quarterly. Generally, you see disclosure in the space tracking a rule very closely, discussing that between 5% and 25% repurchase offer percentage as well as talking about the notice time lines required under the rule. As I mentioned before, timing is important, calendaring is important, that in your notice that gets filed with the SEC and it is provided to shareholders, it's going to provide that repurchase deadline. When a shareholder has to put in their order to redeem shares of the fund. There's a pricing date identified, and that's the date that the fund is actually going to price those redemptions. And there is also a payment date involved, which set the payment day to 7 days following the pricing date. And that sets your record on a quarterly basis for shareholder deadlines along the way. I think a nuance in that regard is that you could also elect to have a discretionary repurchase offer. We don't see that a lot, but we certainly have seen that, and that's something you can use every 2 years. So in addition to your quarterly repurchase offers, you might pick another calendar event, another time line to have a discretionary repurchase offer. And maintaining liquidity in advance of your repurchase offers is a critical piece of the whole puzzle here. And that's something that, even though, you're not restricted to 15% in liquids as you are in the registered funds space, you need to maintain liquidity or we are intended to repurchase event.

And as you've seen and as you've heard, and maybe tried to take some notes, there are certainly a lot of days and time lines and events that come into play here. And that's why -- there's a couple of things that are critical in the whole process is really mapping it at the very beginning, in your product development, before launch, all parties, the adviser, the administrator, the transfer agent, the mailing agent for the notices need to be in lockstep for a successful repurchase event. So what we do and what we think is generally good practice is really mapping those, really calendaring, assigning responsibilities, so that as you go into the first repurchase offer with a multitude of dates to hit and filings to make, that everyone is working in the same direction.

And I guess, finally on that is experienced consul in the interval fund space, can also save you a lot of time along the way during your product development in the days towards and through launch.

And with that, I'm going to turn it back over to Sean and Jason to talk a bit more -- actually, Sean and Rob to talk a little bit more about the operational and tax considerations with the structure.

Sean McLean - *ALPS Fund Services, Inc. - SVP and Director of Fund Accounting*

Thanks, Rick. My name is Sean McLean. I head up our registered funds went accounting team at SS&C. Our back office operational teams at SS&C have been part of many launches and conversions of interval funds. So we're very familiar with the nuances and challenges that these products present. Like Randy pointed out, interval funds come in a variety of types and strategies, and each one has its own set of challenges and considerations when you're looking at and setting up your back-office operations for these products. As Rick talked about, the various timings of the NAV. We see a lot of daily NAV interval firms, but you can also have a monthly or quarterly NAV product.

With the daily NAV, there's a variety of challenges. Many times, you've got investments that were historically held in monthly or quarterly valued products. And now they're held in the daily type of product, which creates valuation and accounting challenges due to a lack of available information from vendors like a Bloomberg or an ICE data services, the typical big vendors. And you've got some additional coordination then with the adviser on these types of products. Most interval funds, like Randy has talked about, hold a decent percentage of private investments. The private investments, you really need to enhance or look at your communication processes between the advisor, between the accounting and administration teams, and really have upfront proactive communication to understand these investments, understand the cash flows and the accounting nuances that come with these types of investments, reconciliation processes. Really, you need to do that upfront and proactively, so you don't have NAV issues down the road. We certainly handle several of all size credit interval funds. These funds often contain really complex instruments like bank loans, asset backs, CLOs, lots of other derivatives, each has its own accounting reconciliation reporting challenges that you need to look at.

And then whether it's the daily, whether it's the monthly quarterly NAV, other complex lines of credits with these funds, or like Rob was talking about, performance fees. Often, there's a performance fees or incentive fees that can sometimes be very complicated and create offline or manual processes. We've had to look at how we're performing these, try to automate these calculations as much as we can and then look at your control processes surrounding any manual process that you have and your review process is to make sure, again, you don't have issues that can get baked into the NAV and cause issues down the road.

From a month or year or quarterly NAV perspective, the traditional registered fund accounting processes and teams were really built on that daily closing of the books, that daily rigid NAV process. So now when you have monthly NAVs, quarterly NAVs, where you need to keep the books open for days and sometimes weeks after the period end, how are you going to do that? What processes do you need to change? Or controls do you need to change? And then you need to have separate teams that are built around a monthly type of NAV or a quarterly NAV versus the daily NAV. And then looking after -- even beyond that looking at your stock 1. Do you need to separate out or carve out your controls in your stock 1? These are all things that we've had to deal with and have worked through, but important considerations.

From a reporting perspective, when you have that at monthly or quarterly NAV, you've got to deal with that information, whether it's valuation or NAV information being delayed and all of a sudden, your window of 30 days or 60 days has been greatly reduced and your teams have to be ready to be able to make those changes and corrections there where sometimes it's days or maybe hopefully, weeks, before you're reporting deadlines and everybody has to be in lockstep and the review process to get all the filings and reporting rights.

And then certainly, interval funds that are holding, private equity funds, hedge funds, even real estate holdings, they can be a big challenge. You have to look at making sure that you have the right technology in place to support these types of investments. And your clients or the advisers' needs on the reporting side, if there's look through needs, do you have the right technology? And then do you have the right teams of experts on the private equity side, on the real estate side, hedge fund side? So I know at SS&C, we have separate expertise, separate teams that can support these types of investments and create or assist, I guess, the potential challenges that our clients have with these types of products.

And then I'd say, number two, from a consideration standpoint is every interval fund client is truly unique. Their oversight models are truly unique. We've always taken a real customized service model approach for all clients, but certainly on the interval fund side because of this unique oversight model, we really try to design that our reporting approach to meet our clients' needs in terms of does the adviser want to be involved throughout the day with transaction and reconciliation reviews? Is it just a valuation review before the NAV is finalized and calculated? Or is it a final NAV approval? How can you build your reports and communication processes to allow for the timely review processes and make it easy for the adviser to go in and get that transparency into the NAV calculations and be able to review. So we spent a lot of time building that and working on that over the last several years.

And certainly, there's also several tax challenges with this structure that need to be considered. I'm going to turn it back over to you, Rob, as our tax expert. Do you mind spending a few minutes discussing some of the important tax considerations?

Robert Velotta

Well, if you've ever talked to a tax guy, you say, can you talk for a few minutes. The answer is, of course, absolutely. You give me the mic, I will take it.

But no, the issue of, operationally, within an interval fund structure really comes down to what exactly is the fund investing in. And primarily, there's a group of tax rules that are out there, in order to be taxed as a regulated investment company, that really plays in here. And just for way of background with -- for the entire audience here, the ones that we're going to focus on are really the good income test or the qualified income test and diversification tests. Very simply from a tax perspective in order for a fund to qualify as a regulated investment company, the fund has to have at least 90% of its income from securities. So we'll talk about that in a second. And in addition, there's 2 different sets of diversification tests. One says that no more than 25% of any investment can be invested in any one particular issuer. And then if you look at your greater than 5% positions, in aggregate, those cannot exceed 50% of the fund. So what does that mean with respect to an interval fund? We've already talked about how these funds can be invested in certain unique instruments. Perhaps there are real estate type investments. Maybe there are certain credit investments. Potentially, there may be investments in underlying funds. And all of those play into these qualification tests, that the team at SS&C ALPS looks at in terms of maintaining the funds RIC qualification status. So the first thing that we look at, and from an operational consideration, is what exactly is the fund investing in? Not necessarily from an economic perspective, but from a tax perspective, there are certain instruments out there that may look and smell like an equity but maybe a debt instrument. There may be some collateralized loan obligations that operate like a debt instrument. But from a tax consideration, maybe structured offshore and may actually be an equity position. So understanding what the portfolio is invested in, not just economically, but also from a tax consideration, is something that the administration team spends a lot of time on.

Furthermore, when you look at the investments, a lot of these type of funds will invest in partnerships. From a tax perspective, when you're looking at a regulated investment company, you actually have to look through that partnership to understand what a particular partnership may be invested in.

I'll give you a very simple example. I have a client of mine that is investing in several real estate partnerships. To the extent that, that real estate partnership was actually buying direct real estate in the fund, that partnership would generate nonqualified income for the RIC because it's not income from securities, it's income from real estate activities. However, my client is investing in various real estate partnerships that has a wholly owned real estate investment trust, or REIT, underneath it. So because it has that REIT structure underneath its partnership, it would actually generate what would be qualified income for the fund. So again, that understanding of transparency of not only is what is the partnership -- or what is the RIC investing in directly, but potentially indirectly. So qualification really is a major consideration from a tax perspective. And also being able to get that level of transparency to the extent that you're making an indirect investment in a particular asset class.

Also, we spend a lot of time with our clients talking about fiscal year-end and tax year-end and what may make sense for a particular investment vehicle. More than a typical open-end fund or even some of our closed-end funds, we have a lot of our clients in the interval fund space that may have disparate book and tax year rents. For example, they may have a March 31 book year-end. But for tax purposes, because of the nature of some of their investments, it may make sense for them to have a 9/30 or a different fiscal year-end. So it creates a little bit of complexity, but certainly something that we spend our time with clients on.

Also getting into a little bit more in the weeds, both from an economic investment perspective but also from a tax perspective, we see a lot of use of blockers and special purpose vehicles and other types of entities that one of our RIC clients may be investing in. For example, they may be investing in something that would not generate qualified income. So they may look to set up whether it's an onshore corporation to invest in these certain assets that they think are -- that the adviser believes is important to that asset or that investment fund. Potentially, they may set up offshore depending on the tax benefits. We also may see, again, using the REIT example, certain blockers that are set up.

We also see joint ventures, special purpose vehicles, one-off partnerships that are set up in order for our clients to facilitate investing in a particular investment. Again, not that uncommon for us to have some unique investments, unique opportunities that a interval fund may invest in because they don't need to have the liquidity that an open-end fund might.

The last consideration that I wanted to talk about now would be really looking at the idea of how do you manage redemption activity? There's a concept from an accounting and auditing perspective called the practical expedient, which essentially means that if you're investing in something that is audited and has a net asset value attached to it, you're allowed to value your -- in certain circumstances, allowed to value that asset based upon merely the net asset value of the underlying investment. Well, sometimes you have some timing issues around that. Let's say, for example, that you're facilitating a redemption on December 31, and you have a net asset value that's assigned. Then you probably have to estimate what is the net asset value of some of those underlying assets or the fair value of those assets in order to facilitate redemption to your investors who are looking to leave or similarly, you're looking to strike a net asset value for investors who are buying into a fund. So

having that strict valuation policy is an important thing, knowing that you may not have all the underlying information and that you have to be comfortable in managing a product like this, knowing that there may be additional information that comes in a week later or 2 weeks later, that may have an impact to a net asset value that you may have done to facilitate redemptions. So a lot of considerations. And I think that last one really leads into what I believe that Sean is going to finish up with just talking a little bit about the NAV process and some of the issues there.

QUESTIONS AND ANSWERS

Jason Vaughn

So Sean, as Rob pass this off to you, I guess one of the questions, as we think about here is, you mentioned the valuation, as Rob did, is one of the challenges that you face with interval funds. Can you talk a little deeper about how this happens and what the audience should think about when they're thinking about really from an NAV perspective, this type of fund?

Sean McLean - *ALPS Fund Services, Inc. - SVP and Director of Fund Accounting*

Sure. Yes. Thanks, Jason. Thanks, Rob. Yes, from a valuation perspective, number one, I always start with the valuation policy, a very well thought out, a well documented valuation policy that's then followed rigorously by all parties involved in the valuation process is critical. And that's the fund accounting team and pricing teams, the adviser, the valuation committee, that everybody is in kind of lockstep agreement and follows that very closely is critical.

I always say, looking at third-party market data vendors is your best approach when you could get them to have that independent, accurate end of day valuation. There's many third-party data vendors out there, some huge ones like a market and an ICE. And there's also a lot of small and niche providers. I know at SS&C, we work with over 20 market data providers. So we have access to just about everybody out in the marketplace.

And then for your level 3 investments, if vendors aren't available, what do you -- how do you bridge that gap, especially in the daily NAV environment. We've seen a lot of people build models that can be adjusted on a daily basis that you can link your investment valuation to other liquid investments underlying or maybe using indexing your benchmarks. And then who manages this model? Does the adviser manage the model? Does the pricing team manage the model? We've also got a separate team at SS&C that can handle pricing models as well for clients. So -- and then another alternative is, if you look at still pricing your investments? And if you're still pricing those investments, how often should you be looking at potential adjustments for significant events, whatever those events may be? Is that a daily process? Is that a monthly process? It really depends on what type of investment and what type of underlying holdings might be under that investment in terms of how you're looking at that. But certainly got expertise in and have experience dealing with all sorts of types of interval funds and all -- about all variety of holdings underneath those funds.

You might have to get -- your teams might have to get the valuations from the fund managers. So is that a monthly statement? Is that a quarterly statement? And there are various technologies that can help support this and get these statements to help automate that valuation, that periodic valuation process. So looking at that.

And lastly, I'd say, from an adviser perspective, it's really important to consider your staffing levels and having staff is really focused, if you have a daily NAV product, really having people on the ready, on a daily basis to be able to answer questions and provide the investment expertise for your operational staff and your accounting teams, your pricing teams in case there are questions, in case things stop trading and having that access and communication is really important to the process. And then outside of valuation, I would say, the other thing that's critically important from a NAV perspective is that integration within your teams and within your vendors. Number one, with the market data vendors, having dedicated teams that are handling those interfaces and connections with market data vendors, so there's not manual touch points and being able to add new vendors on the fly. And then integration internally with your systems. And I know Randy touched on it a little bit, too. But the integration between the front office, between the middle office and the back office is critically important. And having those products that are available, too, is important.

Lastly, integration with the transfer agency, you can't overstate that when you're talking about interval funds. With the nuances around the quarterly tender process, it's important not only to be able to communicate accurately the NAVs or the distribution rates to the transfer agency, but getting that information back, getting corrections back seamlessly in an automated fashion is really important.

I'm going to see it back up to you, Jason, with a question for you on, maybe you could discuss a little bit about the tender process. And how you guys ensure the tender process goes smooth and maybe any other important transfer agent considerations for the audience?

Jason Vaughn

Yes. Thanks, Sean. I think from our perspective, we talk to customers a lot about the tender event is really the cornerstone event, obviously, we have with the tender product. And one of the ways people ask, how do you make sure that's successful. And I think the biggest key we try to focus in on really is having that playbook outlining, you touched on a little bit, Sean, connecting all the components. So this is transfer agent, this is fund administration, accounting, legal and distribution. Really all working together to cohesively be a part of this event. It's not one single after driving this. It's everyone providing information to successfully really manage that event and keep everyone informed across the board about what's happening and when it's happening and what are the impacts of things happening, up to that event, during that event and trailing from there. And the other part of this, really that comes into that tender event, we've had some conversations as we have a lot of customers and prospects. You talked to us about really the proration. What are we seeing? And I would say, prior to this year, I think we were probably seeing somewhere in the time of 5x-ish. We had really worked with some of our clients really that had been proration. And now really in 2020 with different market and people wanting to access liquidity, and really the challenges the space currently that we've had an increase in proration. We understand that's happening because of some of the market volatility, but also it's important to manage that playbook, go back to the connecting to all the actors to be able to react and send relevant information back to the product sponsors about what's happening to understand how we're going to handle the impact of that in that moment, and the outcomes of that.

So I think it really goes back to what everybody really from the start, Randy, Rob, Rick, yourself, Sean, and now I'm really talking about it's communicating and educating all the parties involved in here about what's happening. And it's really the cover of that front, middle to back office for this product set, setting it up all the way to make sure we understand what's happening and the nuances inside of that.

So with that, I think we'll pause here. We'll go to some questions from our audience as well as we are approaching in. Got a few minutes left of our time here. So I'm going to put some questions out to the team really here. So I'll toss this up to the team.

Can you convert an open-end fund to an interval fund? Anybody on the panel want to take a jump at that one and provide any guidance around that topic?

Randy Iner Anderson - *Griffin Capital Company, LLC - Chief Economist*

Well, I'll let the lawyers talk about the details of it, but I would tell you that, that's an easier process from a portfolio management or a sponsor point of view than going the other way. Because when you have open-end product, it probably has fully liquid securities in it. And then you want it to be an interval fund because perhaps you want to add some illiquid securities to it or you want to have a longer investment horizon or perhaps you want to put in different structures. I do know of a -- I do know, in fact, a real estate fund that went from an interval fund structure the other way and actually went back to a daily open-end type fund structure. I would assume, and I'll turn this over to the legal folks anytime you want to get -- you want to change a structure like that. You'd have to go through a shareholder vote, which is a cumbersome and tedious process itself to make that change.

Rick Noyes

Yes. I think -- and this is Rick. What we typically see, right, is where you have traditional closed-end fund possibly converting to interval fund, which has shareholder benefits of increased transparency, increased ability to redeem and more likely, more frequent NAV calcs. And we're certainly seeing closed-end structures go to open-end. Again, generally, more transparency, the better for shareholders. I'm aware of, in 2017, there was a conversion from an open-end fund to a closed-end fund, and the basis of that is there were some challenges in that fund with liquidity that it basically necessitated that move towards that. So I think in addition to the shareholder approval and considering things, you need to consider the very apparent issue of why are you trying to lock down the fund more, this isn't what I bought. It doesn't mean that it can't happen, but it's certainly not the typical transaction that's usually going to more transparency, more NAV calcs.

Randy Iner Anderson - *Griffin Capital Company, LLC - Chief Economist*

That's right. A comment on that. I think that's a potential risk for an interval fund. I think it's important for investors to understand that this product is supposed to have mandatory liquidity during its interval period. And if a fund isn't careful with its liquidity, you could find yourself in a situation where you can't provide it, which would lead to some interesting outcomes. So one of the diligence things that one probably want to look at is, hey, do you have enough liquid securities in order to meet the redemption needs, so you don't have to sell your illiquid securities at an appropriate time in the secondary market. You have lines of credit available out there. Sometimes private security, sometimes interval funds invest in private securities that you -- the drawdown private securities, which means you may have unfunded commitment. So how do your unfunded commitments compared to the cash that you have. And so you don't want to be in a situation really where you wake up on the other side and think you've got quarterly liquidity. You really don't want to go through a closed-end vehicle and then potentially even less. And typically speaking, the phenomenon known as a closed-end fund discount under certain market conditions does exist as well. So understanding that liquidity in the fund and that it's suitable in a way for investors to invest is why I kind of when I started out and say not all investments should make sense an interval fund, you need ones that have both liquidity, illiquid securities in my view.

Jason Vaughn

Thanks, Randy. Appreciate that. Sean, I'm going to toss this one to you. A question we actually get a lot of times on calls. We've got folks looking to launch one. We had mentioned around a kind of a weekly and daily is a minimum, but industry is daily. Later, we talk about that some fund strike NAVs are weekly, monthly or quarterly. Which one's correct? I know, Sean, we've had some of those conversations. Maybe just touch on the differences of those and kind of what we're seeing from your perspective that we service.

Sean McLean - *ALPS Fund Services, Inc. - SVP and Director of Fund Accounting*

Sure. Yes, no problem. Yes, the bulk of the funds that we do service are daily NAV products. I mean, it's certainly easier to get on platforms with that daily NAV component. And that is credit funds, certainly in the daily NAV side, really easier to value. When you're looking at the -- I guess, the monthly cycles, the quarterly cycles, you're looking at potentially a real estate fund, a private equity fund, private equity is certainly tough, a hedge fund of funds. From a valuation perspective, it just typically doesn't make as much sense to do that daily NAV. You've got those challenges getting the valuations in any more than maybe on a monthly basis. So I mean that's kind of what we're seeing, most daily. But then when you're looking at PE and maybe hedge fund of funds, you'd be looking at more monthly year or quarterly.

Randy Iner Anderson - *Griffin Capital Company, LLC - Chief Economist*

I mean in terms of daily -- if you sell your securities daily, you'd have process in place to ensure that you're doing something to ensure that your value makes sense for people who are both already in the fund and for new investors in the fund. And so any deviation from the sort of expected (inaudible) should be around 0. So it's important to have those processes in place.

Jason Vaughn

Great. At, Sean, so a quick question for you again. Sorry, coming back to you. If you create an interval fund with a monthly NAV, how soon after month into those NAVs have to be calculated?

Sean McLean - *ALPS Fund Services, Inc. - SVP and Director of Fund Accounting*

Yes, there's no exact deadlines or guidelines to that. You import, you've got a 30-day window. So ideally, you've got an NAV done within that first week. That's what we like to see. Doesn't always work that way. And a lot of times, we'll see the bulk of the NAV process and information is complete within maybe the first few days. And then you've got some securities that are kind of trickling in from a valuation perspective, maybe even into the second week of the month, but you have to make adjustments for. So you have to be ready to just kind of get the bulk of the work done and then adjust on the fly and be ready to update your reporting processes quickly. So we see it all over the place. So there's not really a deadline to it, but you wouldn't want to push obviously into the next month, so.

Jason Vaughn

Great. Thanks, Sean. Randy, for you, this is a question I actually get a lot from folks. And it talks about kind of the -- and I think you touched a little bit on this, the market of the interval fund space. Where do you kind of see this product from the -- next kind of 12, 24 months from product development and growth strategy perspective? There's a lot of folks out there who look to launch interval fund, and we talked to lot of people who say, "Oh, this is the -- the best product they want to launch out there is this one." What's your thought of the market really, kind of 12, 24 months out as you think about this product setting? We welcome your perspective?

Randy Iner Anderson - *Griffin Capital Company, LLC - Chief Economist*

Yes. No, I appreciate it. I think you're going to end up with bifurcated outcomes. So number one is I do think it's going to grow. I do think we've been through an odd cycle. And in general, the interval funds have held up pretty well relative to sort of their non-interval fund sort of competitive type products. So it's kind of hard to figure out exactly what the competitive products are, depending on which interval fund you're looking at. But they've generally done their job. And I think that the ability -- to be able to have a longer investment horizon without the daily liquidity, not have to hold as much cash, ultimately, will serve the investors well. I think we're going to continue to see more funds launched, I think you're going to see a bunch of funds. Instead of 10, I think you'll end up with 20, that will probably hit $1 billion and more as the wirehouses and RIAs even have more adoption of them. But what I'll also say is that you have no -- it's hard to know which ones, but I think that you'll have a lot of people that will have worked on these things for 2, 3, 4 years. And are finding themselves still with $10 million, $20 million, $30 million, $40 million in there. And find that, that is a lot, a lot of work to go through all these things that we're talking about. I mean, valuation process, redemption process, all the people that are less labor-intensive to run these funds and find out that it's a fairly -- it's a loosely enterprise. And so I also think that there will be funds that eventually either get merged or taken over or potentially close. So in general, overall, more people in the space, more growth, more innovation even in the space where there's going to be tweaks on how liquidity is provided, what assets can be in there. A few more asset types added to them that we really haven't seen come to market. All the big sponsors coming into play. But on the bottom side, you'll see a little bit of carnage for those who just couldn't give traction and didn't really have the distribution footprint or the ability to raise capital to go forward to making the product actually makes sense long term.

Jason Vaughn

Thank you, Randy. I appreciate that. I also like to thank everybody, again, here for attending it. Also to our panelists, Randy, Rob, Rick, Sean, thank you guys so much. Thanks, again, for everyone attending. If anyone has more questions, we didn't quite get to all of them, my apologies. We are at a mark here. My e-mail address is up there, please feel free to e-mail me, and we can get the questions to the panelists here and return those to you as well. So thank you so much, everyone, for your time today. Really appreciate it.
