Interval Funds Offer a Unique, Structured Way to Get Alternatives

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Chuck Jaffe, in The NAVigator podcast, interviewed Jeremy Goff, managing director at Tortoise Advisors. Read the Q & A below as Chuck discusses with Jeremy how investors can use interval funds to add structure and diversification to a portfolio, and why he compares traditional closed-end funds, as well as hedge funds, to interval offerings.

Jeremy Goff

The podcast can be found on AICA's website by clicking here: https://aicalliance.org/alliance-content/pod-cast/

CHUCK JAFFE: Jeremy Goff, managing director at Tortoise Advisors, which specializes in investments in energy assets and necessary economic services is here, and we're talking interval funds today on The NAVigator. This is The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, which is a unique industry organization that represents all facets of the closed-end fund industry, from users and investors, all the way up to fund sponsors and creators. Now today, our guest is Jeremy Goff from Tortoise Advisors, and they run a host of closed-end funds. They also have open-end mutual funds, and you can learn more at TortoiseAdvisors.com, and on Twitter @Tortoise_Invest. But today, we're specifically going to talk with Jeremy Goff about interval funds, which are a very specific type of closed-end fund that you should understand how it works, because well, it's different. It is distinctly different. Before we go any further, if you want more information on closed-end fund investing, check out the website of the Active Investment Company Alliance at AICAlliance.org. Jeremy Goff, good to chat with you.

JEREMY GOFF: Hi Chuck, thanks for having me.

CHUCK JAFFE: We're going to start talking about interval funds, and it's a type of closed-end fund, but they are different and they're increasingly becoming popular. And even for you guys at Tortoise, it's a relatively new thing. You've been doing a lot of things for a long time, interval is a relatively new thing for you, so help my audience understand what an interval fund is and why it's a current opportunity for investors.

JEREMY GOFF: Sure, so I think taking a step back, it is a closed-end fund but I almost like to categorize it as sort of a hybrid of closed-end funds and open-end mutual funds in that there is periodic liquidity. And generally speaking, that's on a quarterly basis, and typically at a minimum of five percent a quarter, and that can go as high as twenty-five percent in any given quarter depending on the level of redemptions a given fund is experiencing. What it does, is that illiquidity component allows you to put more illiquid investments into the fund, and hold them for a longer period of time, while providing some liquidity. But it's really sort of the foundation for what we call liquid alternatives.

CHUCK JAFFE: Let's now jump into what Tortoise is doing. You guys created a fund back, I believe, in 2018. Talk about your fund and why you went in that direction, because you guys cover a lot of ground at Tortoise.

JEREMY GOFF: As you mentioned earlier, Tortoise has a lot of history in essential assets investing, and that started with energy but has evolved into what we call social infrastructure as well. Social infrastructure would be defined as education, healthcare, housing, project finance, and things of that nature. And what we're doing in those particular sectors, is investing in assets or companies that are focused in those particular sectors but are backed by some sort of real estate or real asset. They're directly originated securities, so they're relatively illiquid. And so we launched the Tortoise Social Infrastructure Fund back in 2018 to allow retail investors, and investors what we would not call qualified purchasers, to access these types of investments without the typical requirements.

CHUCK JAFFE: And when folks hear interval, the one thing that investors kind of know that goes as an interval, is a hedge fund. Right? A hedge fund where you're locked in and you can only get those periods that you can get out, etcetera. Help my audience understand how a hedge fund and an interval fund are different. How the interval periods are set up and why that then becomes more of a decision point, so that it helps you on the one hand stay in at times when things might be illiquid, but also when markets are topsy-turvy. But what happens when the gates open? Because in the hedge fund world, often if anybody's dissatisfied, the gates open and everybody goes bolting for the exits.

JEREMY GOFF: I do think in the interval fund space, as opposed to the traditional hedge fund space, that the redemption periods are a little more defined. And it's a 40 Act vehicle right, so it's much more heavily regulated than a traditional hedge fund might be. And I think that the interval fund structure just allows folks to get access where they might otherwise not get access. To your point, Chuck, it does protect investors from other investors. So it's not so much allowing us to gate folks when we don't want them to be gated, but it allows a level of protection for investors who might otherwise have to sell assets at a discount, or some sort of haircut that allows us to hold onto them and really maintain the value of those assets without other investors, to your point, running for the gates.

CHUCK JAFFE: One of the things you mentioned in describing your fund was social infrastructure. I got to know, what's a social infrastructure investment?

JEREMY GOFF: It's really essential assets and services that are focused in areas like education and healthcare, where there's a critical component to the economy and to basically everyday society, that allows us to invest in those assets that we feel are resilient given any sort of business or economic cycle backdrop. These are assets that are needed in the economy and they're needed in society, and we feel like that's an investment thesis that stands alone. Not only are you investing in assets that provide that social component, but there are healthy returns associated with those assets if you do it the right way.

CHUCK JAFFE: What are the other advantages? I know that at Tortoise, you guys do a lot of impact investing, a lot of ESG, as people like to call it, and then there's also a lot of tax-exempt stuff that goes on. Does the interval wrapper help with any of that? Does it hurt with any of that?

JEREMY GOFF: What it does is it allows you to access private investments that are allowed to be issued tax-exempt and have a social focus. I don't think these are the types of investments, as you could go out into the open market and in the public markets, and find what you're looking for or at least in the volume that you'd like to have it. And so what this does, is it allows us to put these attractive assets into a wrapper that allows us to maintain the illiquid nature of what they are. Which helps us achieve the returns that we're looking for, do them tax-exempt, and then also allow a reasonable amount of liquidity in the fund for investors that are either looking to rebalance or maybe trim some of their position down.

CHUCK JAFFE: You know, you talk about illiquid investments. Most people who are not in the market and doing what you do here, illiquid, and they think high-risk or risky. So what do you do to mitigate risk?

JEREMY GOFF: On the debt side of the business, we have what we call covenants, and most of our investments are very covenant heavy. And so we're constantly monitoring these investments relative to those covenants. Those covenants are not just to tell us when something's going wrong, but it's to give us insight into how the business is performing, and it also protects investors. It protects their money and allows a safeguard and an ability to recover should something go wrong.

CHUCK JAFFE: When somebody looks at interval funds versus traditional closed-end funds, does the interval in any way, shape, or form, change how you examine it? I mean, obviously what we're talking about is daily liquidity versus not daily liquidity, but if somebody's building a portfolio other than the liquidity concerns, is there something else that enters in that would ever have them saying, "Oh, wait. I gravitate towards this," or "I don't want to let this be more than a certain percentage of my portfolio"? Are any of those sorts of things?

JEREMY GOFF: I think at times, investors place maybe a little too much value on liquidity, and can at some points do that. I think that if liquidity is a major concern for you, I would say maintaining an appropriate level of liquid investments in your portfolio versus illiquids, the opportunity for a lot more retail-oriented investors to get into illiquid investments is limited. And so the interval fund, at the right level, allows you to get that kind of exposure, alts exposure of where you may not otherwise be able to get it.

CHUCK JAFFE: Jeremy, great stuff. Thanks so much for taking the time out to talk with us.

JEREMY GOFF: Thank you, Chuck. I appreciate it.

CHUCK JAFFE: Jeremy Goff is managing director at Tortoise Advisors, learn about their interval fund, their closed-end funds, and more at TortoiseAdvisors.com, and follow them on Twitter @Tortoise_Invest. The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I'm your host, Chuck Jaffe, you can learn more about my show at MoneyLifeShow.com. To learn more about closed-end funds, interval funds, and business-development companies, go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. The NAVigator podcast is available every Friday. On behalf of AICA, thanks so much for joining us. Please come back and do it again next week.

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TheNAVigator@AICalliance.org

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