John Cole Scott and Kimberly Flynn on Semi-Liquid Funds

On March 14, 2024, Closed-End Fund Advisors President John Cole Scott participated in a CAIA Association webcast discussion on the rising interest in semi-liquid funds and increasing demand for alternative investments. The webcast, which also featured Kimberly Flynn from XA Investments, merged expert insights with data on business development companies (BDCs) and interval and tender offer funds.

Semi-liquid funds are part of a recent wave of new innovations in alternative fund structures that have helped expand retail access to private markets. These products also have the added benefit of maintaining operational and tax efficiency.

The webcast discussion aimed to educate financial advisors and investment professionals on semi-liquid funds and focused on the following topics:

- What kinds of funds are semi-liquid funds?
- How semi-liquid funds are managed
- Which asset classes do these funds focus on?
- Growth dimensions and product trends of semi-liquid funds

Interval and Tender Offer Funds

Flynn provided background and a market update on interval funds and their tender offer fund cousins. Interval funds are a type of SEC-registered, closed-end fund that expands investor access to illiquid investment strategies through low investment minimums, frequent valuations, and 1099 tax forms.

Tender offer funds are similar to interval funds but have more discretion on the amount of tender — or liquidity — they offer. Additionally, while interval funds continually offer shares at NAV on a daily or weekly basis, tender offer funds typically do so on a monthly or quarterly basis.

Flynn said the current marketplace of 200+ interval and tender offer funds is largely being fueled by alternative boutique and traditional mutual fund sponsors, many of whom are new to the growing marketplace. New fund formation and capital raising largely revolves around real assets and infrastructure, with existing credit interval funds dominating fundraising in the market today, she said.

"Anything fits in a tender or interval fund structure," Flynn added, noting that the structure of BDCs and non-traded REITs are more limited in their investment choices given regulatory requirements for those structures.

Business Development Companies (BDCs)

Scott provided background and a market update on BDCs, which are closed-end funds that provide small, growing companies access to capital. Scott talked about the different types and sizes of business loans that BDCs hold, the different sectors they invest in, and their diversification benefits relative to other products in the closed-end fund universe.

Scott also discussed BDC performance during and after the pandemic, noting how their structure made it possible for sponsors to adjust to market changes and bounce back.

Both panelists responded to questions from a group of very engaged audience members during the last segment of the semi-liquid funds webcast, which can be viewed in full at CAIA.org.