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Interval Funds 2020: Year In Review

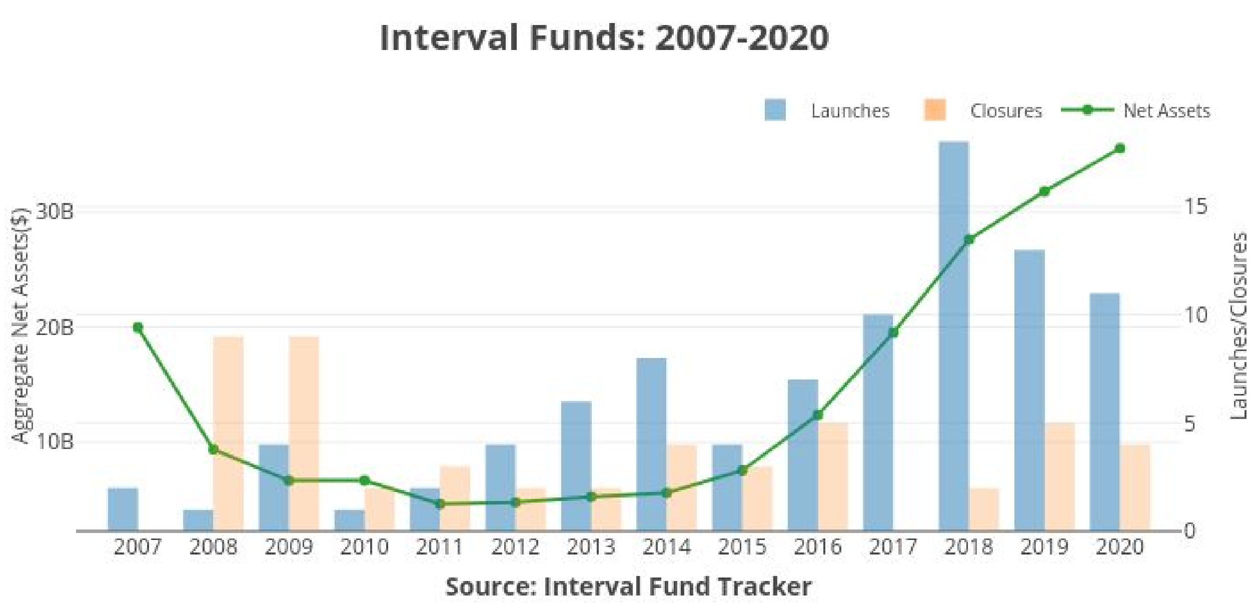
In 2020, the world received a series of dangerous crash courses on epidemiology, exponential growth, and social psychology. When the Covid-19 pandemic broke out in the first quarter, the OECD Composite Leading Indicator showed the sharpest monthly drop in economic activity ever recorded. Governments around the world responded to the pandemic with stimulus plans unprecedented in both their scale and creativity. In a six month period, the US Federal Reserve expanded its balance sheet by more than it did during the six years of quantitative easing that followed the 2009 financial crisis. The S&P 500 plummeted over 30% earlier in the year before recovering and ending the up double digits. Volatility and liquidity challenges led to wide dispersion in the performance of different fund structures and asset classes.

Interval funds and other unlisted alternative products demonstrated resilience amidst the chaos. With few exceptions, interval funds delivered low volatility and minimal drawdowns even during the worst part of the downturn.

Interval Fund AUM Growth

Interval fund assets topped $35 billion by the end of 2020, up 12% compared to the end of 2019.

The following chart shows the long run growth of closed end interval funds.



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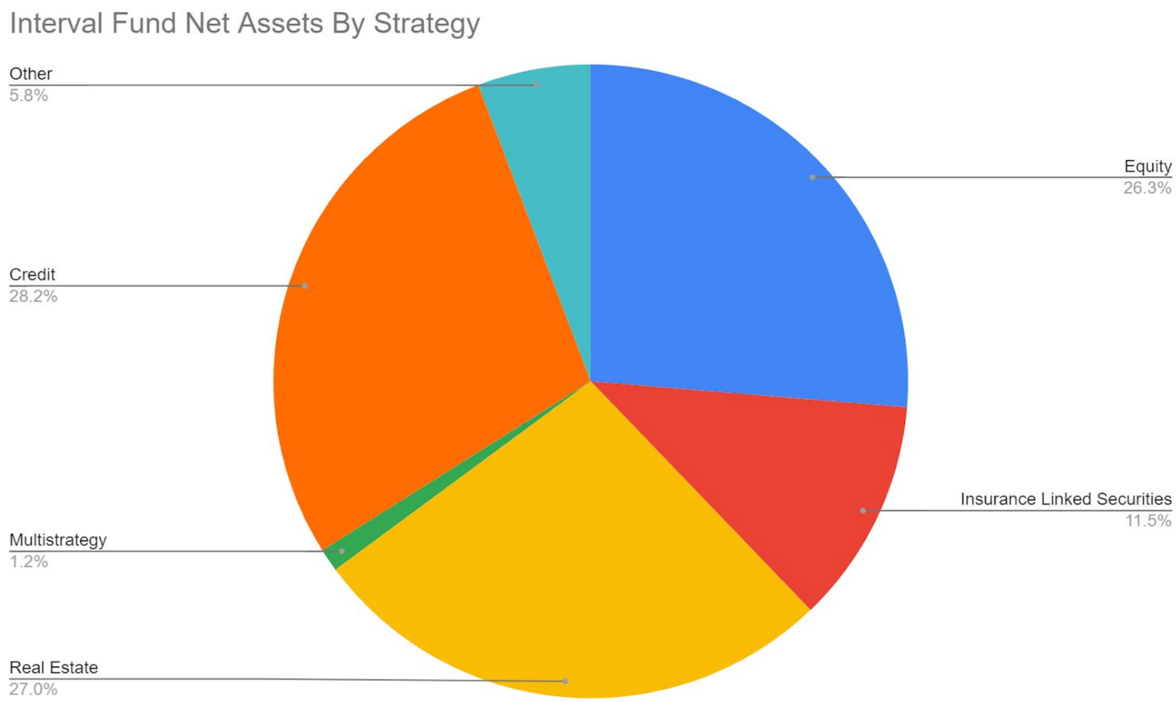
Capital flows and performance reshaped the composition of the interval fund sector. Credit and Real Estate interval funds continue to hold top positions as the most popular categories, based on net assets. Outsized performance from one long/short equity fund made Equity the third largest category by the end of the year. Insurance Linked Securities proved to be useful diversifiers when they maintained steady values amidst the market volatility. However, reinsurance interval funds still experienced significant investor redemptions as investors repositioned their portfolios. Multistrategy funds, including endowment funds, maintained steady performance throughout the year, but still remain a relatively small portion of the overall market.

This chart shows interval fund net assets by strategy, based on filings available as of December 31, 2020.



Premium members can download the underlying data for this chart, along with granular fund level information on historical net asset growth, by logging in and clicking on "NAV Growth."

New Fund Launches

The SEC declared effective 11 new interval fund registration statements in 2020. Eight of these were new fund launches, bringing $7.1 billion in new equity for sale into the market.

Fund Name	Effective Date	Investment Strategy	Maximum Offering Proceeds
Bow River Capital Evergreen Private Equity Fund	12/30/2020	Other	$250,000,000
Fundrise Real Estate Interval Fund, LLC	12/18/2020	Real Estate	$1,000,000,000
First Eagle Credit Opportunities Fund	11/30/2020	Credit	$2,000,000,000
Flat Rock Core Income Fund	10/13/2020	Credit	N/A - Created for merger
Lord Abbett Floating Rate High Income Fund	9/30/2020	Credit	$250,000,000
Primark Private Equity Assets Fund	8/24/2020	Equity	$500,000,000
ARCA U.S. Treasury Fund	7/6/2020	Credit	$100,000,000
CIM Real Assets & Credit Fund	4/30/2020	Real Estate	$1,000,000,000
Goldman Sachs Credit Income Fund	3/6/2020	Credit	N/A - Created for merger
Goldman Sachs Real Estate Diversified Income Fund	3/6/2020	Real Estate	N/A Created for merger
KKR Credit Opportunities Portfolio	2/28/2020	Credit	$2,000,000,000

Corporate Actions

It was also an active year for fund conversions and M&A. Flat Rock converted its BDC into an interval fund via a merger transaction, creating the Flat Rock Core Credit Fund. For more information on the process of converting a BDC into an interval fund, see this article. Goldman Sachs took over the management contract for the Resource Real Estate Income Fund, and via merger transaction, created the Goldman Sachs Real Estate Diversified Income Fund. This is an important strategic move, reflecting a broader shift into wealth management and alternative investments for the bulge bracket investment bank. Goldman Sachs also sought to take over the management contract for the Resource Credit Income Fund via a similar transaction but they eventually abandoned the plan. Sierra Crest Investment Management subsequently took over Resource's credit fund, which they subsequently renamed Alternative Credit Income Fund

Fund Registration Pipeline

The pipeline of new fund launches continues to be robust. Nine new interval funds filed registration statements in 2020. As of the current date, there are 26 interval fund registration spending approval from the SEC.

The growth of unlisted closed end funds extends beyond interval funds. Tender offer funds, which are similar to interval funds, but have different repurchase characteristics, are another popular structure. Seventeen tender offer funds filed new registration statements in 2020. For more research, analysis, and data on tender offer funds, see our recently launched affiliate site.

Interval Fund Performance

Alternative investments play an important part in portfolio construction because they can enhance the risk/return tradeoff in an overall asset allocation. In 2020, interval funds helped support investor portfolios by minimizing volatility.

Most interval funds are focused on delivering a steady stream of income to investors, although others focus on long term capital gains. In the real estate sector, consistent distributions compensated for temporary NAV reductions. Long/short equity funds with a generalist approach thrived in the volatile stock market. On the other hand, funds with credit or equity exposure to the hospitality and energy sectors experienced negative returns.

The following chart shows the total return performance across all interval funds that have reported full year performance for 2020:

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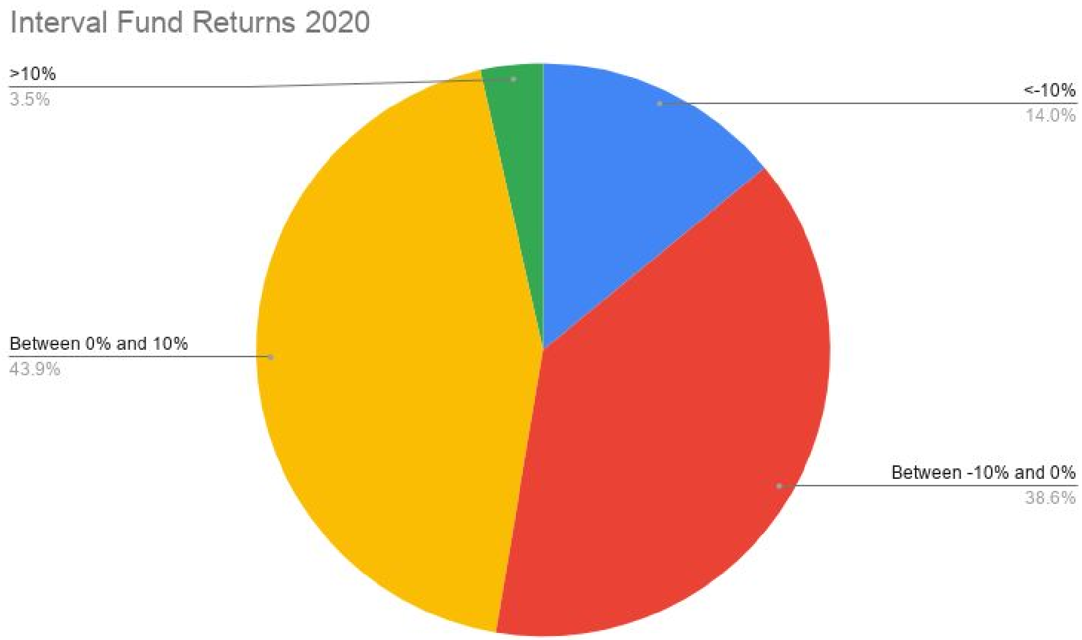

Premium members can download the underlying data for this chart, which includes every share class of every active interval fund, by logging in and clicking on "Interval Fund Performance History"

Since most interval funds use minimal leverage, they are typically able to weather short term volatility in asset prices. Although 2020 performance was nothing to get excited about, most interval funds had solid momentum going into the first part of 2021. NAV write downs that the sector experienced in 2020 are likely to be reversed in early 2021. Given the magnitude of government support, credit and real estate are likely to prove to be especially resilient. For example, Bluerock Total Income + Real Estate Fund, which earned a 1.61% total return in the year ended September 30, was up an additional 2.57% during the quarter ended December 31. Bluerock's management is optimistic that returns will increase in the coming year.

As of the date of this report, we only have full year performance figures available for funds with fiscal years ending on October 31 or earlier. Since the markets continued to recover in the latter part of the calendar year , it's likely that several of the funds with December 31 fiscal years will report better total returns.

Top Performing Interval Funds

The outsized performance of a small number of funds is worth highlighting. ACAP Strategic Fund in particular had a stellar year. It invests in stocks around the world, taking long and short positions based on fundamental research. In the year ended September 30, 2020, ACAP Strategic Fund's W shares achieved a total return of 49.08%, and A Shares returned 47.96%.

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In the credit space, A3 Alternative Credit Fund delivered an 8.52% total return, including a combination of distributions and NAV growth. A3 Alternative Credit Fund's broad mandate allows it to invest in a variety of credit instruments. Its overweight positions in reverse mortgages proved to be a major contributor to performance in 2020.

Pioneer ILS Interval Fund demonstrated the potential for reinsurance to provide non-correlated returns, finishing the fiscal year up 7.77% with minimal volatility.

This table show the top five interval funds based on total return during the 2020 Fiscal Year

Fund Name	**Fiscal Year End**	**Category**	**2020 Total Return**
ACAP Strategic Fund	September 30	Equity	Class A (XCAPX) 49.08% Class W (XCWPX) 47.96%
A3 Alternative Credit Fund	September 30	Credit	Common Shares (AAACX) 8.52%
Pioneer ILS Interval Fund	October 31	Derivatives/Insurance Linked Securities	Common Shares (XILSX) 7.77%
AlphaCentric Prime Meridian Income Fund	September 30	Credit	Common Shares(PMIFX) 6.57%
FS Credit Income Fund	October 31	Credit	Class I (FCRIX) 2.76% Class A(FCREX) 2.48% Class T(FCRTX) 2.19% Class U (FCRUX) 2.03%

Liquidity Management During the Covid Pandemic

Interval fund liquidity is a controversial topic in the asset management industry. It's essential for investors to understand the nuances of how interval funds provide limited liquidity.

As noted in a previous article:

> Non-traded REITs, BDCs and tender offer funds often have a habit of making quarterly repurchase offers for 5% of the outstanding shares, but the board can(and frequently will) cancel a share repurchase plan without shareholder consent for any reason. Interval funds by definition must offer to repurchase a minimum of 5% of shares from investors at NAV at consistent intervals(typically quarterly). An interval fund repurchase plan can generally only be changed if shareholders approve the change. This is known as the "interval fund rule." An interval fund manager can only suspend redemptions in very limited and extreme circumstances, such as if there is a shutdown in capital market activity making it impossible to calculate NAV(mutual funds can also suspend redemptions for similar reasons). In practice, if all investors in an interval fund rush to the exit at the same time, the manager will redeem them slowly over several quarters.

Practically speaking, in a crisis environment, it might take an investor several quarters to exit a fund. In many cases, performance rebounds, and this limitation proves to be a beneficial feature. However, investors need to be careful that they have enough liquid assets to meet near term cash needs without exiting their interval fund positions.

Asset managers also need to carefully manage their fund's liquidity. In a crisis environment, there will typically be several quarters in a row where the tender offers are oversubscribed. Increased redemption requests tend to occur at a time when it is difficult to raise new capital. This can be a concern for interval funds that focus on illiquid assets such as private equity or real estate. If a fund manager doesn't prepare properly, they could be forced to sell assets at steep discounts at the bottom of a crisis in order to meet redemption requests, as required by the interval fund rule. Typically managers will keep 15-20% of the portfolio in publicly traded securities, or some other liquid asset. Additionally, it's prudent to maintain a credit line with excess capacity.

Covid-19 was a stress test for the industry's liquidity management processes. Fortunately most modern interval fund managers have resilient portfolio management strategies. As expected, tender offers were oversubscribed throughout the year. Although managers prorated redemption requests throughout the year, no major fund needed to suspend redemptions. Most managers offered additional liquidity beyond the minimum 5% requirement.

Strong communication from managers was also essential. Griffin Capital explained its strategy for handling market volatility in a fund commentary that it published during the summer. Bluerock provided extra details on the fund's risk management in a March press release. PIMCO also took a proactive approach to communicating with investors by hosting a webinar when markets were volatile.

The following table summarizes tender offers for funds with over $1 billion in net assets. When tender offers are oversubscribed, fund sponsors prorate the requests, so each investor only has a portion of their shares repurchased.

Company	Repurchase Date	% of Requested Shares Repurchased
ACAP Strategic Fund	N/A	Not specified
Bluerock Total Income + Real Estate Fund	May 5, 2020	54%
	August 5, 2020	54%
	November 10, 2020	45%
Griffin Institutional Access Real Estate Fund	May 6	68%
	August 5	68%
	November 20	58%
Pimco Flexible Credit Income Fund	N/A	Not Specified
Stone Ridge Trust II	February 28, 2020	94%
	May 29, 2020	89%
	August 21, 2020	91%
Stone Ridge Trust V	March 13, 2020	100%
	June 12, 2020	99%
Versus Capital Multi Manager Real Estate Income Fund	April 17, 2020	58%
	July 17, 2020	32%
	October 16, 2020	51%

Strong performance and strong distribution networks each proved to be a competitive advantage in 2020. Several major interval funds actually had net inflows during the year. Tender offers for ACAP Strategic Fund were widely undersubscribed in 2020, and it raised an additional $2.5 billion in capital. This surge in fundraising combined with capital gains have made it by far the largest interval fund. Real estate managers Blueeock and Griffin Capital also had significant net inflows for the year, in spite of the pandemic induced surge in redemption requests. Additionally Pimco also had net inflows for the year. Stone Ridge Trust had significant net inflows, although as noted above they were able to meet nearly all redemption requests.

Company	**Time Period**	**Ratio of Redemptions to New Capital Raised**	**Net Inflows(Outflows)**
ACAP Strategic Fund	Year ended September 30	0.06	$2,597,071,260
Bluerock Total Income + Real Estate Fund	Year ended September 30	0.52	$344,679,852
Griffin Institutional Access Real Estate Fund	Year ended September 30	0.63	$358,603,779
Pimco Flexible Credit Income Fund	Year ended June 30	0.18	$649,827,000
Stone Ridge Trust II	Year ended October 31	14.46	($1,752,303,977)
Stone Ridge Trust V	Year ended August 31	14.79	($425,392,72)
Versus Capital Multi Manager Real Estate Income Fund	6 months ended September 30	3.36	($284,130,534)