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## INTERVAL FUNDS HAVE TURNED 25 AND ARE INCREASINGLY POPULAR

*Interval funds are a type of closed-end fund that, like open-end (mutual) funds, continuously offer their shares, but unlike open-end funds, offer to repurchase shares only at periodic intervals and in limited amounts. The authors discuss the growing popularity of such funds, the applicable regulatory requirements, and certain key advantages and challenges. They close by comparing interval funds with structurally similar, but more flexible, tender offer funds.*

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Interval funds, which first emerged in the 1990s, now comprise a small but steadily growing portion of the overall registered closed-end fund market. Their recent burst in popularity is due, at least in part, to a growing number of investors seeking to diversify their portfolios beyond traditional equity or fixed-income mutual funds. At a fundamental level, there are numerous structural differences that set interval funds apart from registered open- and other closed-end fund structures, but in some respects, they can be viewed as a hybrid of the two. For example, interval funds are continuously offered (like open-end funds) and allow investors access to more illiquid investments (a hallmark of closed-end funds).

### WHAT IS AN INTERVAL FUND?

In April 1993, the Securities and Exchange Commission (the “SEC”), adopted Rule 23c-3 under the Investment Company Act of 1940, as amended (the

“1940 Act”), establishing the regulatory framework for the interval fund.<sup>1</sup> In the adopting release, the SEC noted that the adoption of Rule 23c-3 “should attract greater investment in closed-end companies.”<sup>2</sup> After a relatively slow start, the popularity of interval funds as an alternative to open- and other closed-end fund structures has grown in the quarter century following the rule’s adoption.

In some ways, interval funds resemble traditional registered open-end funds, known as mutual funds. Mutual funds continuously offer shares and permit investors to redeem shares daily at a price based on net

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<sup>1</sup> 17 C.F.R. § 270.23c-3.

<sup>2</sup> Repurchase Offers by Closed-End Management Investment Companies, Inv. Co. Act Rel. No. IC-19399 (1993).