# XA’s Hagen On The Interval Fund Boom

Friday, November 8, 2024

Chuck Jaffe, in this episode of The NAVigator podcast interviewed Jared Hagen, Vice President at XA Investments. Read the Q&A below as Jared discusses this year's unprecedented growth in interval and tender-offer funds and how the number of funds in registration guarantees the trend will continue through 2025. Hagen talks about why the investment community has taken a shine to interval funds and covers how the expansion into the space has included some unique partnerships, with firms like KKR and Capital Group pairing up to bring new products to market.

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

Dig into current investment strategies, the latest trends, and new developments in the closed-end fund industry at the Active Investment Company Alliance’s Annual Roundtable. The event now in its sixth year is Wednesday, November 13th in New York City, and will combine informative panels, engaging speakers, and valuable networking opportunities with leaders in closed-end funds, interval funds, and business-development companies. AICA events are known for their high-quality advisor-centric content and for enabling meaningful discussion and interaction with the top minds in closed-end funds. Advisors can get seven CE credits for attending. Go to AICAlliance.org/events to get complete details and to see the full schedule, and through Halloween night use the code NAVIGATOR30 for a 30% discount on registration costs.

**CHUCK JAFFE:** We're talking interval and tender-offer funds with Jared Hagen, vice president at XA Investments, this is The NAVigator. Welcome to 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, a unique industry organization representing the full spectrum of the closed-end fund business from investors and users to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. And today we're heading in the direction of interval and tender-offer funds with Jared Hagen, vice president at XA Investments, which among other things does research in the alternative space, helping money managers make decisions about the products they can offer and bring to market successfully, You can learn more about everything they do at XAInvestments.com. If you want to learn more about closed-end funds, business-development companies, and yes, interval and tender-offer funds, visit AICAlliance.org, it's the website for the Active Investment Company Alliance. Jared Hagen, welcome to The NAVigator.

**JARED HAGEN:** Thanks, Chuck. Excited to be here.

**CHUCK JAFFE:** So before we go any further, just a quick reminder, not everybody in the audience will necessarily know what tender-offer funds are. Interval funds they've got enough experience with, but tender-offer funds are continuously offered closed-end funds that are not listed on a stock exchange, and they seek to provide investors with liquidity by offering to buy back a percentage of shares, whereas an interval fund is not offering you the regular liquidity, it's offering liquidity at intervals. Both have been pretty active, it's a space that the market has taken a lot more interest in, so what kind of growth have you seen in interval and tender-offer funds this year?

**JARED HAGEN:** Thanks, Chuck. Yeah, we've seen a lot of growth this year in the interval and tender-offer fund market, at the end of the September here, the market has seen 27 new fund launches year to date and that brings the total up to 235 funds. The asset growth we've seen is pretty incredible too, we're up to $162 billion in net assets which roughly equates to 16% increase so far this year. The growth too just isn't concentrated in the largest funds, the market continues to diversify in terms of what funds are gaining considerable assets, while the interval fund market is still in the early innings, 16% of funds have over a billion in assets, and the top 20 funds are slowly starting to see their market share dwindle as new products are being launched and the market continues to diversify and see growth beyond just these extra-large funds. Alternative managers continue to take up the majority of the market, we've noticed 70% of the market still is those traditional alternative managers, ones that have private funds, but we're also seeing a lot of growth in traditional mutual fund money managers coming into the space trying to diversify their offerings, get into the alternative space and increase their scope in terms of investments for their clients beyond the traditional bread and butter mutual funds, large cap equity, they're starting to get into the private credit space, private equity. We're seeing a lot of mergers and acquisitions with them trying to gain capabilities and then build out their interval fund offerings.

**CHUCK JAFFE:** Why are so many asset managers coming into the space? There's a chicken and egg here, you've got funds that are doing well, that's going to attract more attention, you've got people wanting to come, but what is the reason why so many asset managers are starting to look here and go, "This is something I want to do"?

**JARED HAGEN:** I think there's a lot of reasons quite honestly. Historically, private asset managers are looking to find new audiences with their products, they're looking to find new wrappers, they want to make it easier for advisors to use their products, and an interval fund is the perfect wrapper to do that because with it being a registered fund compared to a private fund, they're able to get some protections with the 40 Act but also they're able to provide the clients with a 1099 tax form versus a K-1 that you'd be getting in a historically private fund. When we look at traditional mutual fund managers, they're really just looking to diversify their business and expand offerings, I think we all know that the market, large cap market, equities, public equities, public debt in general is becoming more and more efficient. It's really hard for managers to add alpha in that side of the market, whereas when you look at private assets, private equity, venture capital, hedge funds, private credit, there's a lot of alpha that advisors are looking to grab and add to their portfolio because they're no longer getting that on the public side of the portfolio.

**CHUCK JAFFE:** How much of the action has been interval funds versus tender-offer funds? Interval funds, that's a longer standing trend, tender-offer funds, not as much of a trend, but is there significantly more action there as well?

**JARED HAGEN:** They're really sister structures when it comes down to it. The interval fund, typically they offer quarterly liquidity, roughly 5% of the portfolio, where tender offers are subject to the board's approval and typically they will offer tenders a little bit less frequently than an interval fund. What we're seeing in the market is interval funds are definitely becoming the more popular structure, obviously depending on the strategy that asset managers are trying to use, sometimes a tender offer is the best route to go because they do need to monitor that liquidity and be able to offer it at not as frequent of a time period as a quarterly interval fund in the market. So really we're seeing growth with interval funds, and typically those that have no suitability restrictions, those that strike NAVs daily, and those that offer quarterly liquidity.

**CHUCK JAFFE:** Some of these funds have been the result of some really interesting, and in some cases, for the closed-end fund industry certainly, headline-making. I'm not sure the rest of the word reads the same headlines as we do, Jared, but for the fund world there have been some interesting partnerships. Why the partnerships in this fund structure that we don't necessarily see with everything else?

**JARED HAGEN:** Yeah, Chuck, it's a really interesting development in the space. Partnerships aren't traditional advisory, sub-advisory relationships that we are used to seeing in the registered fund space, they're really strategic partnerships between two firms and they're trying to benefit from each other's footprint, right? So we're seeing the likes of KKR and Capital Group, they recently filed for two public-private credit interval funds, they're expecting those to launch in the first half of 2025. Capital Group is planning to manage the public debt portion of those funds and KKR will manage the private credit assets, but beyond that, KKR's trying to leverage the sales and distribution footprint of Capital Group and their captive audience that they built with their mutual fund platform, and then Capital Group is looking to leverage KKR's expertise in private credit assets. This isn't the only partnership we're seeing, as you said, there's been a lot of headlines in the industry. We might not read the same news as everyone else, but I think that it's been something that we've seen, even BlackRock and Partners Group, they're launching alternative focused models, and there's going to be three risk bases, and their plan is to have BlackRock interval funds in those models and Partners Group interval funds in those models, and that's really interesting because it's going to give advisors a dilemma, so to speak, in terms of how they are going to optimize their client's portfolios when they use these models, because it's going to be a slug so to speak, in a portfolio, and we're going to have to be very careful in terms of making sure that the portfolio's optimized for clients because these are separate from the rest of the portfolio.

**CHUCK JAFFE:** Yeah, it will be interesting to watch how it plays out. Undoubtedly we'll be talking to you as we see it play out in the future, but let's talk about the future now, because we've discussed the trends, but is this a sustainable trend? Are we going to see more of this in 2025? Is your early expectation that if you think this year was busy for interval funds, wait till next year?

**JARED HAGEN:** Absolutely, Chuck, like you said, we do expect this to continue in 2025. Both public-private partnerships that we just talked about, but also the market in general. As I noted, 27 funds have been launched this year, and we can kind of get a look-forward into 2025 when you look at the SEC registration process, there's a record 50-plus funds in the SEC backlog at this moment and we expect more filings to happen prior to the end of the year. Although not all funds will make it through the process, this still shows that there's considerable demand from fund sponsors entering the space with new products, and many are hoping to launch within those first six months of the new year, so a lot of pent up demand in the SEC, and that's going to make it hard for some firms to get to market or gain scale because the market is going to start to be flooded with new products and gatekeepers are going to need to be vetting those products and probably putting some more stringing parameters in place. That being said, we still think that the market is really young and we anticipate to see that growth into the future. There's 133 unique sponsors, 44 of those sponsors have multiple funds, and 18 are in registration to launch an additional fund at this moment. I think we plan to see at least $200 billion in net assets across 270 plus funds by the end of 2025.

**CHUCK JAFFE:** Well, we, like I said, will talk to you again to see how it's all playing out. Meanwhile, thanks so much for the time you gave us today, thanks for joining me on The NAVigator.

**JARED HAGEN:** Thanks, Chuck. Appreciate it.

**CHUCK JAFFE:** The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. And yes, I'm Chuck Jaffe, and I'd love it if you'd check out my show on your favorite podcast app or by going to MoneyLifeShow.com. And if you're going to be at the Active Investment Company Alliance's 2024 Roundtable this week in New

York City, please come up and say hello. To learn more about interval funds, tender-offer funds, closed-end funds generally, and business-development companies go to AICAlliance.org, that's the website for the Active Investment Company Alliance, and you can learn about the fall roundtable there. AICA is on Facebook @AICAlliance. Thanks to my guest Jared Hagen, he's vice president at XA Investments, which is online at XAInvestments.com. The NAVigator podcast is new every Friday, make sure you don't miss an episode by subscribing or following along on your favorite podcast app, and if you like this podcast, be sure to leave us a review and tell your friends about us, because that stuff really does help. Until next week, when we'll be bringing you things from the AICA Roundtable, happy investing, everybody.

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