



Jan 2025

Accessing Alternatives:

The Strategic Role of Interval Funds Today

DIAMOND HILL

INVESTED IN THE LONG RUN

Interval funds have experienced a remarkable resurgence in recent years. Designed to bridge the gap between traditional mutual funds and private investment structures, these closed-end mutual funds are designed to offer investors periodic liquidity while providing access to more illiquid and/or alternative asset classes. Due to the combination of transparency, regulatory oversight and the potential for enhanced returns, interval funds have become an increasingly significant tool for both institutional and individual investors. The evolution of these funds reflects a growing appetite for diversification and innovative strategies that go beyond traditional equity and fixed income markets.

A Brief History

Interval funds were introduced in the early 1990s after a Securities and Exchange Commission (SEC) recommendation in its 1992 study [“Protecting Investors: A Half Century of Investment Company Regulation.”](#) The study found that the stark differences between open-end funds, which provide daily liquidity, and closed-end funds, which lack this feature, constrained the development of new investment products. The interval fund structure was established in 1993 – the same year the first exchange-traded fund (ETF) was created.

Interval funds were largely overlooked for years due to the rise of low-cost, passive index investing, advancements in market liquidity and a focus on innovation in other areas. However, this began to shift around the mid-2010s as investors showed increasing interest in alternative strategies and became more open to investment vehicles with restricted or semi-restricted liquidity. Offering easier access to alternative investment strategies that were once available only to institutional or ultra-wealthy investors through private limited partnership drawdown funds, interval funds began to gain broader appeal.

Today’s Resurgence

Over the past decade, the interval fund market has experienced remarkable growth. According to Morningstar research¹, assets under management have expanded at an impressive annualized rate of nearly 40%, reaching over \$90 billion by late 2024. The number of interval funds has also surged, increasing from just 14 funds managing approximately \$2.9 billion 10 years ago to around 100 funds today. Credit interval funds represent the largest piece of the pie with over \$56 billion in assets under management, with equity and real estate funds representing roughly \$18 billion and \$8 billion, respectively. Despite this rapid expansion, interval funds still represent a relatively small slice of the pooled investment vehicle market.

Alternative investment fund managers have traditionally leveraged private fund structures to tap into interest in private markets. While these private funds remain prominent, there is a growing shift towards vehicles such as interval funds. Interval funds blend features of traditional private vehicles with those of registered funds, offering broader accessibility to different types of investors, improved liquidity options and regulatory and tax advantages.

What Is an Interval Fund? The Basics

An interval fund is a type of closed-end fund, notable for its distinct structure and investor-friendly features. Unlike traditional closed-end funds, interval funds do not trade on the secondary market, making them similar to private limited partnerships (LPs) in terms of illiquidity. However, their periodic liquidity offerings sets them apart. Interval funds regularly offer to repurchase a portion of outstanding shares at net asset value (NAV), typically on a quarterly basis, though some funds allow for semi-annual or annual repurchase intervals. This periodic liquidity is one of the main appeals of interval funds compared to the often-lengthy lock-up periods of private limited partnerships, which can extend for several years or more.

Interval funds also boast strong regulatory oversight and operational standards, thanks to the 1940 Investment Company Act. Like other registered investment companies, they are required to have a board of trustees or directors, with most members being independent of the fund’s advisor. They also need an audit committee that includes at least one “financial expert.” These structures enhance accountability and transparency, offering investors an additional layer of reassurance.

From a pricing perspective, interval funds are required to calculate and report their NAV at least weekly, although many do so daily, ensuring that investors have regular insight into the fund’s valuation. This commitment to frequent pricing, coupled with the interval fund’s periodic repurchase obligations, provides a level of adaptability and liquidity that stands out in the realm of illiquid investment vehicles.

¹“Morningstar’s Guide to Interval Funds: Strengths, weaknesses, and uses”, June 2024.

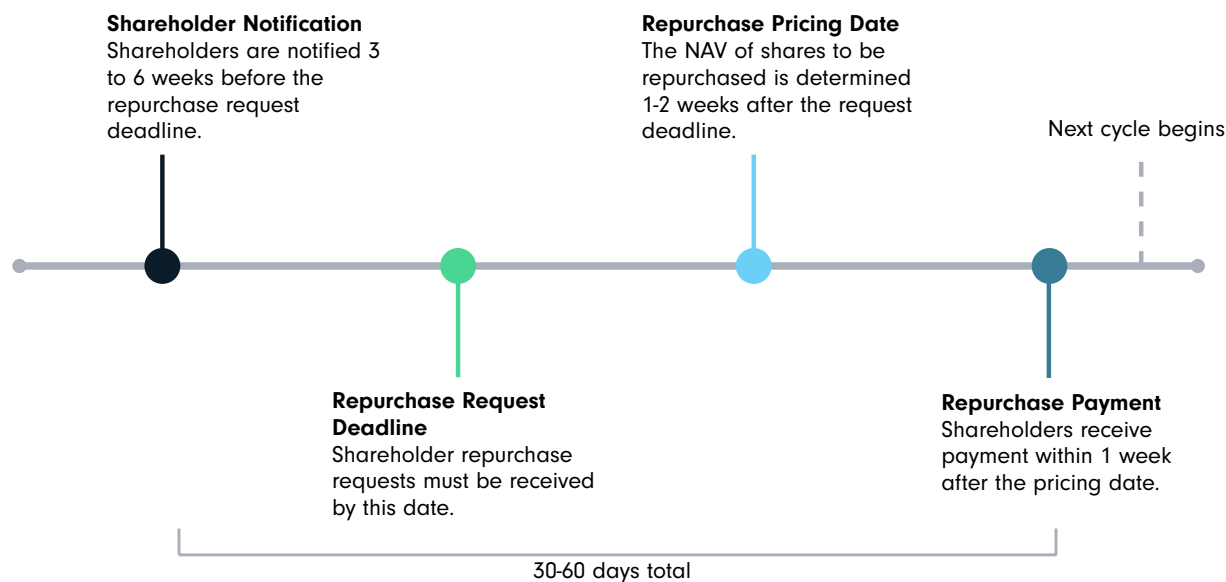
Despite their ability to hold illiquid assets like private credit or real estate, interval funds must carefully balance their portfolios. To meet repurchase obligations, fund managers are required to maintain a portion of the fund in liquid securities, such as publicly traded equities or highly rated liquid debt instruments. This strategic allocation supports the fund's liquidity needs while allowing it to capitalize on the higher-return potential of less liquid investments.

How does the repurchase process work?

The frequency of repurchase offers is specified in a fund's prospectus and annual shareholder report. The fund manager will notify shareholders of the upcoming repurchase dates. Shareholders must accept the offer by a given date and the actual repurchase will occur after that at a future specified date.

Interval funds only buy back a certain percentage — 5% to 25% — of all outstanding shares during a repurchase offer. If the repurchase requests from shareholders exceed the amount of outstanding shares, the repurchase will generally be completed on a pro-rata basis. This means there is no guarantee that investors can redeem the number of shares they desire during a given repurchase offer.

Example Repurchase Process



For illustrative purposes only. Individual funds have their own distinct schedules. See prospectus for details.

Ultimately, interval funds combine the flexibility of periodic access to capital with features that align with investor expectations of transparency and governance. By offering increased liquidity compared to private equity or private credit vehicles, interval funds bridge the gap between fully liquid investment options and the often opaque, long-term commitments of private limited partnerships. This makes them an increasingly attractive choice for investors seeking a balance between diversification, illiquidity premiums and the ability to access their capital periodically.

Underlying Investments — Know What You're Buying

When considering interval funds, it's essential for investors to develop a thorough understanding of the underlying investments, as well as the associated risks, return potential, fees and expenses. While the interval fund structure offers a unique way to access alternative asset classes, it provides no direct insight into the specific investments held within the fund. Understanding what lies beneath the surface is critical to assessing whether the fund aligns with an investor's goals and risk tolerance.

A key benefit of interval funds is their ability to hold illiquid assets, a characteristic that enables managers to tap into investment strategies often seen in hedge funds, private equity and private credit. While inherently riskier than traditional stocks or bonds, these investments can offer the potential for higher returns or enhanced portfolio diversification. For example, interval fund managers can allocate capital to more niche, idiosyncratic securities that may be inappropriate for more liquid investment vehicles. These securities might include structured credit (mortgage-backed securities and asset-backed securities), term loans, distressed debt (mezzanine and subordinated corporate debt, sovereign debt), real estate and other types of high-yielding investments, which often come with an illiquidity premium that rewards investors for their patience.

The success of an interval fund heavily depends on the quality of its underlying investments and the expertise of the fund manager. Due diligence in selecting a capable, experienced manager is critical. Even the most efficient fund structure cannot overcome poor investment decisions — what goes into the fund drives the outcomes. A skilled manager will take advantage of the fund's flexibility to implement thoughtful, research-driven strategies, while a poorly managed fund may lead to subpar results, regardless of its structure.

For investors seeking to diversify their portfolios or achieve potentially greater returns by complementing more traditional investments with innovative alternatives, interval funds offer a compelling opportunity. Their ability to provide exposure to illiquid assets in a semi-liquid vehicle offers access to assets and strategies historically reserved for private funds. Yet, as with any investment, understanding the unique risks and nuances of the underlying portfolio is vital to making informed investment decisions.

Interval Fund Comparison

	Interval Fund	Closed-end Fund	Typical Private Fund
1940 Act Registered	Yes	Yes	No
Continuously offered	Yes	No	No
Daily valuations	Yes ¹	Yes	No
Tax reporting	1099	1099	Typically, K-1
Performance fee	No ¹	No	Yes
Capital calls	No	No	Yes
Investor suitability	None ²	None	Qualified purchaser
Investment minimum	\$\$	\$\$	\$\$\$
Liquidity	Periodic (typically quarterly)	Exchange traded	Periodic/illiquid
Illiquid securities	75%-95% max ³	Unlimited	Unlimited

¹May vary by fund. ²Typically, interval funds are not legally required to impose investor suitability. However, because of their relative illiquidity, individual distributors may require clients to meet certain criteria. ³There may be some limitations, as funds must maintain liquid assets sufficient to meet repurchase offers.

Spotlight: Diamond Hill Securitized Credit Fund

Launched in September 2024, the Diamond Hill Securitized Credit Fund is specifically designed to capitalize on our fixed income team's extensive expertise in securitized assets. This interval fund structure allows for strategic investments in illiquid and below-investment grade securities, presenting opportunities to enhance potential returns while maintaining a focused approach to the asset class. The Fund may be well-suited for institutional investors seeking to complement traditional credit portfolios or diversify exposure with illiquid private credit strategies

Carefully consider the Fund's investment objectives, risks and expenses. This and other important information are contained in the Fund's prospectus and summary prospectus, which are available at diamond-hill.com or calling 888.226.5595. Read carefully before investing. The Diamond Hill Funds are distributed by Foreside Financial Services, LLC (Member FINRA). Diamond Hill Capital Management, Inc., a registered investment adviser, serves as Investment Adviser to the Diamond Hill Funds and is paid a fee for its services. Not FDIC insured | No bank guarantee | May lose value

The Diamond Hill Securitized Credit Fund is operated as a continuously offered, non-diversified, registered closed-end, interval fund. As a result, pursuant to Rule 23c-3 under the Investment Company Act of 1940, as amended ("Company Act"), the Fund will conduct quarterly repurchase offers, at net asset value, of no less than 5% and no more than 25% of the Fund's outstanding shares. It is possible that a repurchase offer may be oversubscribed, with the result that shareholders may only be able to have a portion of their shares repurchased. If a repurchase offer is oversubscribed by shareholders, the Fund will repurchase only a pro rata portion of shares tendered by each shareholder. There is no assurance that a shareholder will be able to tender their Fund shares when or in the amount that they desire. Shareholders should not expect to be able to sell shares other than through the Fund's repurchase policy, regardless of how the Fund performs.

Risk Disclosure

An investment in the Fund should be viewed as an illiquid investment, involves a high degree of risk and is not suitable for investors that require liquidity. Shares are not redeemable, are not listed on any securities exchange, and there is not expected to be any secondary trading market in the shares to develop.

In general, when interest rates rise, fixed income values fall. There are specialized risks associated with investing in securitized bond investments, including market, credit, distribution, inflation, extension, liquidity, management and interest rate risk. Lower quality/high yield securities involve greater default risk or price changes than bonds with higher credit ratings. Mortgage- and asset-backed securities are influenced by factors affecting the housing market and the assets underlying such securities. The securities may decline in value, face valuation difficulties and become more volatile and/or illiquid. They are also subject to prepayment risk, which occurs when mortgage holders refinance or repay loans sooner than expected, creating an early return of principal to loan holders. There is no assurance that monthly distributions paid by the fund will be maintained at a certain level or that dividends will be paid at all.

The Fund's distributions may be funded from unlimited amounts of offering proceeds or borrowings, which may constitute a return of capital and reduce the amount of capital available to the Fund for investment. Any capital returned to Shareholders through distributions will be distributed after payment of fees and expenses.

A return of capital to Shareholder's is a return of a portion of their original investment in the Fund, thereby reducing the tax basis of their investment. As a result from such reduction in tax basis, Shareholders may be subject to tax in connection with the sale of Shares, even if such Shares are sold at a loss relative to the Shareholder's original investment.

The Diamond Hill Securitized Credit Fund is distributed by Foreside Financial Services, LLC.