



## Investment Perspectives

# Interval Funds: Five Potential Benefits for Investors

A look at how the structure of interval funds may afford them certain advantages over traditional mutual funds across market cycles.



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Interval funds continue to attract attention from investors as they become better acquainted with the features of the vehicle. According to Morningstar, the number of new interval fund launches hit double digits in 2017 and has averaged 12 per year since then through 2023. As of midyear, 2024 is on track to see the most launches yet.

Meanwhile, interval funds' assets under management have grown almost 40% annually to \$80 billion over the 10 years through April 2024, based on Morningstar data. We would attribute this impressive growth to several clear investor benefits associated with the semi-liquid aspect of the vehicle, which still retain many of the familiar characteristics of traditional mutual funds. These include:

- Five-letter ticker symbols
- Registration under the Investment Company Act of 1940
- Daily pricing of net asset value (NAV)
- Daily subscriptions, or the ability to purchase shares on any trading day at closing NAV

However, it's the differentiators that really explain the investor appeal. While traditional mutual funds offer daily liquidity, interval funds limit share redemptions to specific, defined "intervals," with quarterly share repurchases as the standard. This means investors can redeem shares on four specific dates each year, as outlined by the fund's share repurchase schedule.

Here, we focus on five of the most important potential benefits of the quarterly redemption feature through the lens of credit-focused interval funds.

## 1. The flexibility to invest in ideas with higher-return potential

Interval funds allow investors access to certain assets that may otherwise be out of reach in more traditional investment vehicles. These assets may be characterized by lower liquidity and/or greater complexity, requiring a stronger focus on research and specialization in the investment process. Additionally, they may often stray from traditional benchmark-like risks. These characteristics often result in exposure to investments with higher-return potential that are typically not found in "regular way" credit funds. A longer time horizon provides managers with the ability to invest with greater conviction in such ideas and focus on idiosyncratic credit selection versus generic exposure to an asset class.



Thinly traded, complex, or unique securities, which are typically passed over in traditional mutual funds, can be an appropriate opportunity set for interval funds. For example, the Lord Abbett Credit Opportunities Fund may invest in asset-backed securities (ABS) residuals or collateralized loan obligation (CLO) equity securities<sup>1</sup> that might not be purchased in our traditional fixed-income funds, at least not in meaningful size. What's more, the Credit Opportunities Fund may be the sole investor in an entire debt tranche of a specific ABS deal, given the combination of our conviction in the investment and the extended time horizon of the vehicle structure.

## **2. Closer alignment of the liquidity profile of the underlying investments with the fund structure**

While interest-rate risk and credit risk take most of the spotlight for fixed-income fund investors, asset/liability mismatch is one risk often overlooked. While this risk is mostly associated with banks that model their business on borrowing short and lending long, it may also be tied to credit-oriented investment vehicles purchasing intermediate- or long-term debt while offering daily liquidity. While interval funds are not perfectly asset/liability matched, their longer-term investment horizon does offer closer alignment between the underlying investments and the overall fund structure relative to those funds offering daily liquidity.

## **3. The ability to be an opportunistic buyer during periods of forced selling**

Opportunistic credit funds seek to monetize the frequent disconnects between market prices and the true values of securities. These disconnects can stem from market-wide dislocations such as the “tech wreck” of 1999–2000, the global financial crisis (GFC) of 2008–09, or the onset of the COVID-19 pandemic in 2020. Dislocations can also be identified on a more local level—appearing often across different sectors, subsectors, and issuers, at different times and in varying magnitudes. In markets characterized by dislocation and heavy selling pressure, mutual funds that offer daily liquidity may be forced to sell holdings to raise enough cash to meet investor redemptions. This forced selling often results in otherwise sound investments being priced at a discount to what fundamentals would imply.

Conversely, interval funds can be opportunistic buyers in such environments, potentially insulated from redemptions and on the offensive to capture misvalued investments discarded for the wrong reasons. For example, during the pandemic-related market disruptions of early 2020, many asset managers were offering securities for sale to accommodate investor share repurchases. This resulted in the disposal of high-quality assets at steep discounts, given the impact of a high cost for liquidity charged by those in a position to bid for such risk. As an interval fund, the Credit Opportunities Fund was a liquidity provider, with no redemptions to meet at the apex of market-wide selling pressure. As a result, the Fund increased its investment-grade exposure, taking advantage of quality assets that could be obtained at steep discounts.

## **4. A longer investment time horizon that allows for catalyst realization**

Investment ideas involving market dislocations often need time to “play out.” The Credit Opportunities Fund’s portfolio management team seeks to identify a catalyst for each investment candidate that will drive spread compression. In addition to identifying the potential catalyst, the team also quantifies the time frame—for which that precipitating event is expected to close the gap between their differentiated fundamental view and that of the market. Often, that time frame can include several quarters. Therefore, the quarterly redemption feature of the interval fund structure allows the investment team to “stay until the end of the movie,” remaining invested until the catalyst has been recognized by the market and their price targets realized.

This concept applies to investments across the liquidity spectrum. In other words, while a longer time horizon provides managers with the ability to invest with greater conviction in ideas with low liquidity, the benefit also applies to liquid securities. Just because a security is deemed liquid and can be sold easily and without the price impact of a meaningful liquidity cost, does not mean selling the security is the right decision. A manager insulated from significant redemptions can be a seller on his or her own terms, waiting until the catalyst is recognized by the market, regardless of the degree of liquidity associated with the security.



## 5. Greater visibility with respect to future investor redemptions

Finally, daily liquid mutual fund managers have limited transparency with respect to the timing or severity of notable “waves” of outflows. They must be ready to meet significant redemption requests daily. In contrast, managers of strategies available through an interval fund have clear visibility with respect to when redemptions will be due (i.e., four defined dates in the fund’s fiscal year). With respect to severity, redemption requests are monitored each day leading up to the request deadline. This visibility, combined with the proration feature that’s triggered when redemption requests exceed 5% shares outstanding, allows managers to invest with greater conviction and ensure they are well-prepared to meet investor requests to redeem shares.

### A Final Word

The impressive growth of interval funds is not surprising, given the appeal to investors of accessing institutional-caliber strategies and investments in a vehicle that offers the convenience and degrees of familiarity shared with traditional mutual funds. We are proud of the growth we’ve experienced in this space and emphasize the fact that opportunistic credit is an integral pillar in our alternatives platform. We’ve been investing in the leveraged credit markets since 1971. Over the years, our investors recognized an opportunity to apply our expertise to idiosyncratic ideas that may exhibit lower liquidity, greater complexity, and higher-return potential than more traditional credit issues through concentrated, high-conviction portfolios.



## Spotlight: Lord Abbett Interval Funds

Over five years ago, we launched the *Lord Abbett Credit Opportunities Fund*, a multisector portfolio of nearly 100 ideas. The portfolio is designed to maximize alpha available from security selection across a wide range of fixed-income sectors through bottom-up research on dislocated issues with high-return potential. This strategy has generated enhanced yield and outstanding performance on an absolute, relative, and risk-adjusted basis, with the Fund returning over 40% since inception through May 31, 2024 (Class I shares), outperforming the ICE BofA High Yield Constrained Index by over 20% during that time. We've raised over \$2 billion in Credit Opportunities from investors looking for a complement or replacement for generic credit portfolios (e.g., high yield, multisector), a replacement for underperforming interval funds, a complement to other semi-liquid structures, or a complement to illiquid private credit strategies, among other applications.

In September 2021, we launched the *Lord Abbett Special Situations Fund*, a corporate bond and loan portfolio of nearly 50 ideas focused on investment opportunities in businesses or capital structures that are highly complex or impacted by dislocations in their industry, leaving them misunderstood, difficult to analyze, and misvalued. The portfolio emphasizes debt with safety features that may mitigate loss potential such as issues that are secured by collateral, are in a senior position in the payment waterfall,<sup>2</sup> or are sufficiently covered through low loan-to-value ratios. The Fund has returned over 17% since inception (Class I shares), outperforming a 50/50 blend of the Credit Suisse Leveraged Loan Index and the ICE BofA U.S. High Yield Constrained Index, which returned 10.28% over the same period.

The *Lord Abbett Floating Rate High Income Fund*, a concentrated bank loan portfolio designed to deliver enhanced carry through a combination of select high-conviction investment ideas and thoughtful incorporation of leverage, was launched in January 2023. The Fund has returned over 18% since inception (Class I shares), outperforming the Credit Suisse Leveraged Loan Index which returned 16.32% over the same period.

### Lord Abbett Credit Opportunities Fund (I shares)

AS OF 06/30/2024	Annualized Return				
	Year to Date	1-Year	3-Year	5-Year	Since Inception (02/21/2019)
Fund	6.40%	12.54%	3.48%	7.22%	7.44%
ICE BofA U.S. High Yield Constrained Index	2.65%	10.53%	1.70%	3.75%	4.28%
Fund Expense Ratio: Gross 1.68% Adjusted: 1.42%					

### Lord Abbett Special Situations Income Fund (I shares)

AS OF 06/30/2024	Annualized Return				
	Year to Date	1-Year	3-Year	5-Year	Since Inception (09/13/2021)
Fund	5.93%	13.95%			6.17%
Credit Suisse Leveraged Loan Index	4.44%	11.04%			6.11%
Fund Expense Ratio: Gross 1.64% Net 0.25%					

### Lord Abbett Floating Rate High Income Fund (I shares)

AS OF 06/30/2024	Annualized Return				
	Year to Date	1-Year	3-Year	5-Year	Since Inception (01/10/2023)
Fund	6.11%	14.10%			12.68%
Credit Suisse Leveraged Loan Index	4.44%	11.04%			11.05%
Fund Expense Ratio: Gross 5.23% Net 0.25%					

Adjusted expense ratio excludes certain expenses, such as the interest expense from borrowing in certain underlying funds. Performance data based on total return at net asset value, including the reinvestment of dividends and capital gains, if any, but does not reflect deduction of any front-end sales charges which are not applicable for Class I Shares. Class I Shares are available only to institutional investors and certain others, including retirement plans. Instances of high double-digit returns were achieved primarily during favorable market conditions and may not be sustainable over time.

Source: ICE Data Indices, Lord Abbett, and Bloomberg. Data as of June 30, 2024. Please see Glossary and Index Definitions, below, for more information on indexes displayed in this table.

**Past performance is not a guarantee or indication of future results.** Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. Neither diversification nor asset allocation can guarantee a profit or protect against loss in declining markets.

**Performance data quoted reflect past performance and are no guarantee of future results. Current performance may be higher or lower than the performance quoted. The investment return and principal value of an investment in the Fund will fluctuate so that shares, on any given day or when redeemed, may be worth more or less than their original cost. You can obtain performance data current to the most recent month end by calling Lord Abbett at (888) 522-2388 or referring to our website at lordabbett.com.**

For more information on Lord Abbett interval funds please contact your regional manager.



<sup>1</sup>**ABS** residuals represent the first loss tranche of an ABS deal, meaning the residual will receive cash flow once the other tranches receive principal and interest. Therefore, any and all excess cash flow generated by the deal flows into the residual tranche. **CLO equity tranches** capture the difference between what a CLO earns in loan interest and what it owes the CLO debtholder.

<sup>2</sup>The **payment waterfall** is the order in which different creditors within the capital structure are paid.

## NOT FDIC INSURED—NO BANK GUARANTEE—MAY LOSE VALUE

### The Lord Abbett Credit Opportunities Fund

The Lord Abbett Credit Opportunities Fund is structured as an unlisted closed-end interval fund. Limited liquidity is provided to shareholders only through the Fund's quarterly offers to repurchase between 5% and 25% of its outstanding shares at net asset value, subject to applicable law and approval of the Board of Trustees. The Fund currently expects to offer to repurchase 5% of outstanding shares per quarter. There is no secondary market for the Fund's shares, and none is expected to develop. There is no guarantee that an investor will be able to tender all or any of their requested Fund shares in a periodic repurchase offer. Investors should consider shares of the Fund to be an illiquid investment.

Although the Fund may impose a repurchase fee of up to 2.00% on shares accepted for repurchase by the Fund that have been held for less than one year, the Fund does not currently intend to impose such a fee. Please refer to the Fund's prospectus for additional information.

The Fund's ability to be fully invested and achieve its investment objective may be affected by the need to fund repurchase obligations. In addition, the fees and costs associated with investing in an interval fund may be significantly greater than those of other fund structures.

**A Note about Risk:** The Fund is subject to the general risks associated with investing in debt securities, including market, credit, liquidity, and interest rate risk. The Fund may invest in high-yield, lower-rated securities, sometimes called junk bonds. These securities carry increased risks of price volatility, illiquidity, and the possibility of default in the timely payment of interest and principal. The Fund may invest in debt securities of stressed and distressed issuers as well as in defaulted securities and debtor-in-possession financings, all of which may be considered Special Situations. Distressed and defaulted instruments generally present the same risks as investment in below-investment-grade instruments. However, in most cases, these risks are of a greater magnitude because of the uncertainties of investing in an issuer undergoing financial distress. The Fund may invest in foreign or emerging market securities, which may be adversely affected by economic, political, or regulatory factors and subject to currency volatility and greater liquidity risk. The Fund may invest in derivatives, which are subject to greater liquidity, leverage, and counterparty risk. These factors can affect Fund performance.

Because of the risks associated with the Fund's ability to invest in high-yield securities, loans and related instruments, and mortgage-related and other asset-backed instruments, foreign (including emerging market) securities (and related exposure to foreign currencies), and the Fund's ability to use leverage, an investment in the Fund should be considered speculative and involving a high degree of risk, including the risk of a substantial loss of investment.

The Fund's portfolio is actively managed and is subject to change.

### The Lord Abbett Special Situations Income Fund

The Lord Abbett Special Situations Income Fund is structured as an unlisted closed-end interval fund. Limited liquidity is provided to shareholders only through the Fund's quarterly offers to repurchase between 5% and 25% of its outstanding shares at net asset value, subject to applicable law and approval of the Board of Trustees. The Fund currently expects to offer to

repurchase 5% of outstanding shares per quarter. There is no secondary market for the Fund's shares and none is expected to develop. There is no guarantee that an investor will be able to tender all or any of their requested Fund shares in a periodic repurchase offer. Investors should consider shares of the Fund to be an illiquid investment.

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**New Fund Risk:** The Fund is newly organized. There can be no assurance that the Fund will reach or maintain a sufficient asset size to effectively implement its investment strategy.

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### The Lord Abbett Floating Rate High Income Fund

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Although the Fund may impose a repurchase fee of up to 2.00% on shares accepted for repurchase by the Fund that have been held for less than one year, the Fund does not currently intend to impose such a fee. Please refer to the Fund's prospectus for additional information.

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Because of the risks associated with the Fund's ability to invest in high-yield securities, loans and related instruments and mortgage-related and other asset-backed instruments, foreign (including emerging market) securities (and related exposure to foreign currencies), and the Fund's ability to use leverage, an investment in the Fund should be considered speculative and involving a high degree of risk, including the risk of a substantial loss of investment.

The Fund's portfolio is actively managed and is subject to change.

Unless otherwise noted, all discussions are based on U.S. markets and U.S. monetary and fiscal policies.

Asset allocation or diversification does not guarantee a profit or protect against loss in declining markets.

No investing strategy can overcome all market volatility or guarantee future results.

The value of investments and any income from them is not guaranteed and may fall as well as rise, and an investor may not get back the amount originally invested. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon, and risk tolerance.

Market forecasts and projections are based on current market conditions and are subject to change without notice.

Projections should not be considered a guarantee.

#### Equity Investing Risks

The value of investments in equity securities will fluctuate in response to general economic conditions and to changes in the prospects of particular companies and/or sectors in the economy. While growth stocks are subject to the daily ups and downs of the stock market, their long-term potential as well as their volatility can be substantial. Value investing involves the risk that the market may not recognize that securities are undervalued, and they may not appreciate as anticipated. Smaller companies tend to be more volatile and less liquid than larger companies. Small cap companies may also have more limited product lines, markets, or financial resources and typically experience a higher risk of failure than large cap companies.

#### Fixed-Income Investing Risks

The value of investments in fixed-income securities will change as interest rates fluctuate and in response to market movements. Generally, when interest rates rise, the prices of debt securities fall, and when interest rates fall, prices generally rise. High yield securities, sometimes called junk bonds, carry increased risks of price volatility, illiquidity, and the possibility of default in the timely payment of interest and principal. Bonds may also be subject to other types of risk, such as call, credit, liquidity, and general market risks.

Longer-term debt securities are usually more sensitive to interest-rate changes; the longer the maturity of a security, the greater the effect a change in interest rates is likely to have on its price.

The credit quality of fixed-income securities in a portfolio is assigned by a nationally recognized statistical rating organization (NRSRO), such as Standard & Poor's, Moody's, or Fitch, as an indication of an issuer's creditworthiness. Ratings range from 'AAA' (highest) to 'D' (lowest). Bonds rated 'BBB' or above are considered investment grade. Credit ratings 'BB' and below are lower-rated securities (junk bonds). High-yielding, non-investment-grade bonds (junk bonds) involve higher risks than investment-grade bonds. Adverse conditions may affect the issuer's ability to pay interest and principal on these securities.

#### Glossary & Index Definitions

**Bank Loans or Leveraged Loans** are loans extended to companies or individuals that already have considerable amounts of debt. Lenders consider leveraged loans to carry a higher risk of default and, as a result, a leveraged loan is more costly to the borrower.

**Collateralized Loan Obligation (CLO)** is a special purpose vehicle (SPV) with securitization payments in the form of different tranches. Financial institutions back this security with receivables from loans. Collateralized loan obligations are the same as collateralized mortgage obligations (CMOs) except for the assets securing the obligation. CLOs allow banks to reduce regulatory capital requirements by selling large portions of their commercial loan portfolios to international markets, reducing the risks associated with lending.

**Asset-Backed Security (ABS)** is a financial security backed by a loan, lease or receivables against assets other than real estate and mortgage-backed securities. For investors, asset-backed securities are an alternative to investing in corporate debt.

**Carry** is the difference between the yield on a longer-maturity bond and the cost of borrowing.

**Duration** is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates.

A **liquidity premium** compensates investors for investing in securities with low liquidity. Liquidity refers to how easily an investment can be sold for cash. Liquidity premiums, which are the cost of daily liquidity in the form of lower compensation, or yield, for similar credit risks.

**Opportunistic credit** investments seek to capitalize on dislocations in credit markets and mispricings that can occur in fixed-income markets.

Private credit covers an array of strategies that span the capital structure and borrower type. These range from senior secured loans for blue-chip corporate borrowers, to junior unsecured credit for financing new building construction, to loans against specialized assets such as railcars and airplanes or contractual revenue streams like royalties and subscription services, to distressed situations.

**Yield** is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value, or face value. **Yield-to-maturity (YTM)** represents the expected return (expressed as an annualized rate) from the bond's future cash flows, including coupon payments over the life of the bond and the bond's principal value received at maturity. **Yield-to-worst** refers to the lesser of a bond's (a) yield-to-maturity or (b) the lowest yield-to-call calculated on each scheduled call date.

**Yield curve** is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. One such comparison involves the two-year and 10-year U.S. Treasury debt. This yield curve is used as a benchmark for other debt in the market, such as mortgage rates or bank lending rates. The curve is also used to predict changes in economic output and growth.





The **Credit Suisse Leveraged Loan index** is designed to mirror the investable universe of the U.S. dollar-denominated leveraged loan market.

The **ICE BofA U.S. High Yield Constrained Index** is a rules-based index consisting of U.S. dollar-denominated, high yield corporate bonds for sale in the U.S. The index is designed to provide a broad representation of the U.S. dollar-denominated, high yield corporate bond market. The index is a modified market value-weighted index with a cap on each issuer of 2%.

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#### **Morningstar Category Information**

**Bank-loan** portfolios primarily invest in floating-rate bank loans instead of bonds. In exchange for their credit risk, these loans offer high interest payments that typically float above a common short-term benchmark.

**High-yield bond** portfolios concentrate on lower-quality bonds, which are riskier than those of higher-quality companies. These portfolios generally offer higher yields than other types of portfolios, but they are also more vulnerable to economic and credit risk. These portfolios primarily invest in U.S. high-income debt securities where at least 65% or more of bond assets are not rated or are rated by a major agency such as Standard & Poor's or Moody's at the level of BB (considered speculative for taxable bonds) and below.

**Multisector bond** portfolios seek income by diversifying their assets among several fixed-income sectors, usually U.S. government obligations, U.S. corporate bonds, foreign bonds, and high-yield U.S. debt securities. These portfolios typically hold 35% to 65% of bond assets in securities that are not rated or are rated by a major agency such as Standard & Poor's or Moody's at the level of BB (considered speculative for taxable bonds) and below.

**Short-term bond** portfolios invest primarily in corporate and other investment-grade, U.S. fixed-income issues and have durations of one to 3.5 years (or, if duration is unavailable, average effective maturities of one to four years). These portfolios are attractive to fairly conservative investors, because they are less sensitive to interest rates than portfolios with longer durations.

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The municipal bond market may be impacted by unfavorable legislative or political developments and adverse changes in the financial conditions of state and municipal issuers or the federal government in case it provides financial support to the municipality. Income from the municipal bonds held could be declared taxable because of changes in tax laws. Certain sectors of the municipal bond market have special risks that can affect them more significantly than the market as a whole. Because many municipal instruments are issued to finance similar projects, conditions in these industries can significantly affect an investment. Income from municipal bonds may be subject to the alternative minimum tax. Federal, state, and local taxes may apply. Investments in Puerto Rico and other U.S. territories, commonwealths, and possessions may be affected by local, state, and regional factors. These may include, for example, economic or political developments, erosion of the tax base, and the possibility of credit problems.

The information provided is not directed at any investor or category of investors and is provided solely as general information about Lord Abbett's products and services and to otherwise provide general investment education. None of the information provided should be regarded as a suggestion to engage in or refrain from any investment-related course of action as neither Lord Abbett nor its affiliates are undertaking to provide impartial investment advice, act as an impartial adviser, or give advice in a fiduciary capacity. If you are an individual retirement investor, contact your financial advisor or other fiduciary about whether any given investment idea, strategy, product or service may be appropriate for your circumstances.

#### **Important Information for non-U.S. Investors**

**Note to Switzerland Investors:** In Switzerland, the Representative is ACOLIN Fund Services AG, Leutschenbachstrasse 50, CH-8050 Zurich, whilst the Paying Agent is Bank Vontobel Ltd., Gotthardstrasse 43, CH-8022 Zurich. The prospectus, the key information documents or the key investor information documents, the instrument of incorporation, as well as the annual and semi-annual reports may be obtained free of charge from the representative. In respect of the units offered in Switzerland, the place of performance is at the registered office of the representative. The place of jurisdiction shall be at the registered office of the representative or at the registered office or domicile of the investor.

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A decision may be taken at any time to terminate the arrangements made for the marketing of the Fund in any EEA Member State in which it is currently marketed. In such circumstances, Shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the Fund free of any charges or deductions for at least 30 working days from the date of such notification.



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