



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 the pace of growth has continued.

According to Morningstar, 19 interval funds were introduced through May 2025, positioning the year to potentially exceed the previous record of 27 launches set in 2024. Additionally, Morningstar reports that assets under management for interval funds have grown nearly 40% annually, reaching close to \$100 billion as of April 2025.

We would attribute this impressive growth to several clear historical 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 differentiated 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 strategy may invest in asset-backed securities (ABS) residuals or collateralized loan obligation (CLO) equity securities¹ 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 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, and took 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 strategy’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 potential 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, helps to allow 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. Beyond this familiarity, interval funds offer a suite of structural characteristics that can enhance investor outcomes across market cycles, providing a differentiated risk-return profile through lower liquidity, greater complexity, and higher-return potential compared to traditional credit investments.



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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.

A **dislocation** in financial markets refers to a situation where asset prices deviate significantly from their intrinsic or fair value due to abnormal market conditions generally caused by shocks that can induce broad-based selling.

A **fixed income fund** is an investment vehicle that primarily invests in bonds and other debt securities to generate regular income for investors.

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.

An **interval fund** is a non-traditional closed-end mutual fund that limits liquidity by allowing investors to redeem shares only at specific intervals, typically quarterly. Unlike traditional mutual funds that offer daily liquidity, interval funds repurchase a percentage of outstanding shares—usually between 5% and 25%—on a scheduled basis.

An **investment catalyst** is a specific event, development, or condition that signifies a change in the value of an investment. It can cause the market to reassess an asset's worth and unlock potential value that was previously overlooked.

Liquidity refers to the frequency allowed to purchase or redeem (sell) shares or units of a pooled investment vehicle or fund.

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.

Mutual funds are investment vehicles, typically professionally managed, that pool money from multiple investors to purchase shares of a diversified portfolio of stocks, bonds, and other investment securities.

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.

Semi-liquid refers to the quarterly redemption periods offered by interval funds, as opposed to the daily liquidity, or daily redemption, offered by mutual funds.

Share redemption refers to the selling of shares or units of a pooled investment vehicle or fund.

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.

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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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