NEXPOINT
ADVISORS

INTERVAL FUNDS
WHAT TO KNOW
BEFORE YOU INVEST

INTERVAL FUNDS: WHAT ARE THEY?

An Interval Fund may be best described as a Closed-End Fund with some of the attributes of an Open-End Fund. Some sponsors are selling them in lieu of non-traded BDCs and REITs because they are viewed to be more investor friendly as sponsors look to address FINRA notice 15-02 and the new DOL fiduciary rule. Let's define some terms:

"Closed-End Fund" — A *traditional* closed-end fund is a publicly traded investment company that raises a fixed amount of capital, only one time, through an initial public offering (IPO). The fund is then structured, listed and traded like a stock on a stock exchange.

"Open-End Fund" — An open-end fund is a type of mutual fund that does not have restrictions on the amount of shares the fund will issue. If demand is high enough, the fund will continue to issue shares no matter how many investors there are. Open-end funds also buy back shares when investors wish to sell. The price of purchases and sales are based on the fund's net asset value, which is a great benefit to investors.

"Interval Fund" — An interval fund is legally classified as a closed-end fund, however it is very different from a *traditional* closed-end fund. An interval fund offers daily investments but only a stated portion of its shares are available for sale or redemption during pre-determined intervals. Similar to the open-end structure, purchases and sales are made at the fund's net asset value (NAV).

"Non-Traded Fund" — A non-traded fund, such as a non-traded BDC or non-traded REIT, is a continuously offered fund that does not trade on a securities exchange. Non-traded funds can be illiquid for long periods of time and offer limited redemptions. Investors typically seek non-traded funds as a long-term investment for income distribution.

	Closed End Fund	Open End Fund	Interval Fund	Non-Traded Fund
Offering Period	One time through IPO	Continuous	Continuous	Continuous
Listed on Exchange	Yes	No	No	No
Liquidity	As exchange allows	Through constant share repurchase	Periodically as determined by prospectus	Periodically as determined by prospectus[1]
Direct Redemption	No	Yes	Yes	Yes, but limited
Pricing	Market	NAV	NAV	NAV
Valuation	Daily	Daily	Daily	Periodically as determined by prospectus
Taxed	1099 Distributions & Capital Gains	1099 Distributions & Capital Gains	1099 Distributions & Capital Gains	1099 Distributions & Capital Gains
Maximum Illiquid Investments	No Limit	15%	Up to 95% based on 5% liquidity minimum	No Limit

In summary, an interval fund acts like a cross between an open-end and closed-end fund. Interval funds offer investors the option to invest daily, while they only allow for periodic redemptions (typically quarterly), through the fund's repurchase offer program. Offering periodic redemptions rather than daily redemptions gives the fund the opportunity to invest in assets that may be considered more illiquid in nature, and therefore more suitable to long-term investors. Unlike a non-traded fund, interval funds must offer at least 5% at each quarterly redemption.

WHAT ARE SOME BENEFITS OF INVESTING IN INTERVAL FUNDS?

Interval funds are considered 1940 Act Funds and are also subject to the Securities Act of 1933 and the Securities Exchange Act of 1934. Because they are highly regulated, interval funds provide investors with many of the same protections of a traditional mutual fund and do not require investor accreditation. In addition, being highly regulated means that investors have greater transparency, making them suitable for a wider audience.

Interval funds offer daily pricing through NAV, which results in transparency on the net value of a client's positions. Investors have the ability to invest daily and redeem their investment at net asset value on an interval basis (typically quarterly) through the fund's tender offer program.

Offering redemptions on an "interval" basis brings unique advantages to the fund by allowing the fund more time to gather large pools of capital in private, institutional investments. These types of investments may provide the fund the potential to capture higher yields, lower volatility, lower correlation to the market and higher total returns, but can be riskier and more illiquid in nature. Private investments, which were once exclusive to institutions and to the ultra-wealthy, are now available to investors through an interval fund structure with a level of transparency and liquidity* not typically available in private investments.

In addition to the benefits mentioned above, interval funds don't charge performance-based fees and they typically offer low minimum investment amounts. The purchase and point of sale is done electronically, making transactions faster and more accurate, all leading to a more attractive investment opportunity.

WHAT ARE THE POTENTIAL RISKS?

As with any investment, it's important to consider the risks before you make a decision to invest. Although interval funds are classified as closed-end funds, there are material differences between the two. As we mentioned earlier, interval fund shares do not trade on an exchange, but instead the shares are subject to periodic repurchase offers by the fund at a price based on net asset value. In addition, interval funds may continuously offer their shares at a price based on the fund's net asset value. Since interval funds only offer share redemptions or repurchases on a periodic basis, they have less liquidity* than traditional closed-end funds and open-end funds.

In addition, interval funds are permitted to deduct a redemption fee from repurchase proceeds (not to exceed 2% of the proceeds). This fee is paid back to the fund for expenses directly related to the repurchase. Interval funds may charge other fees as well, which are outlined the fund's prospectus.

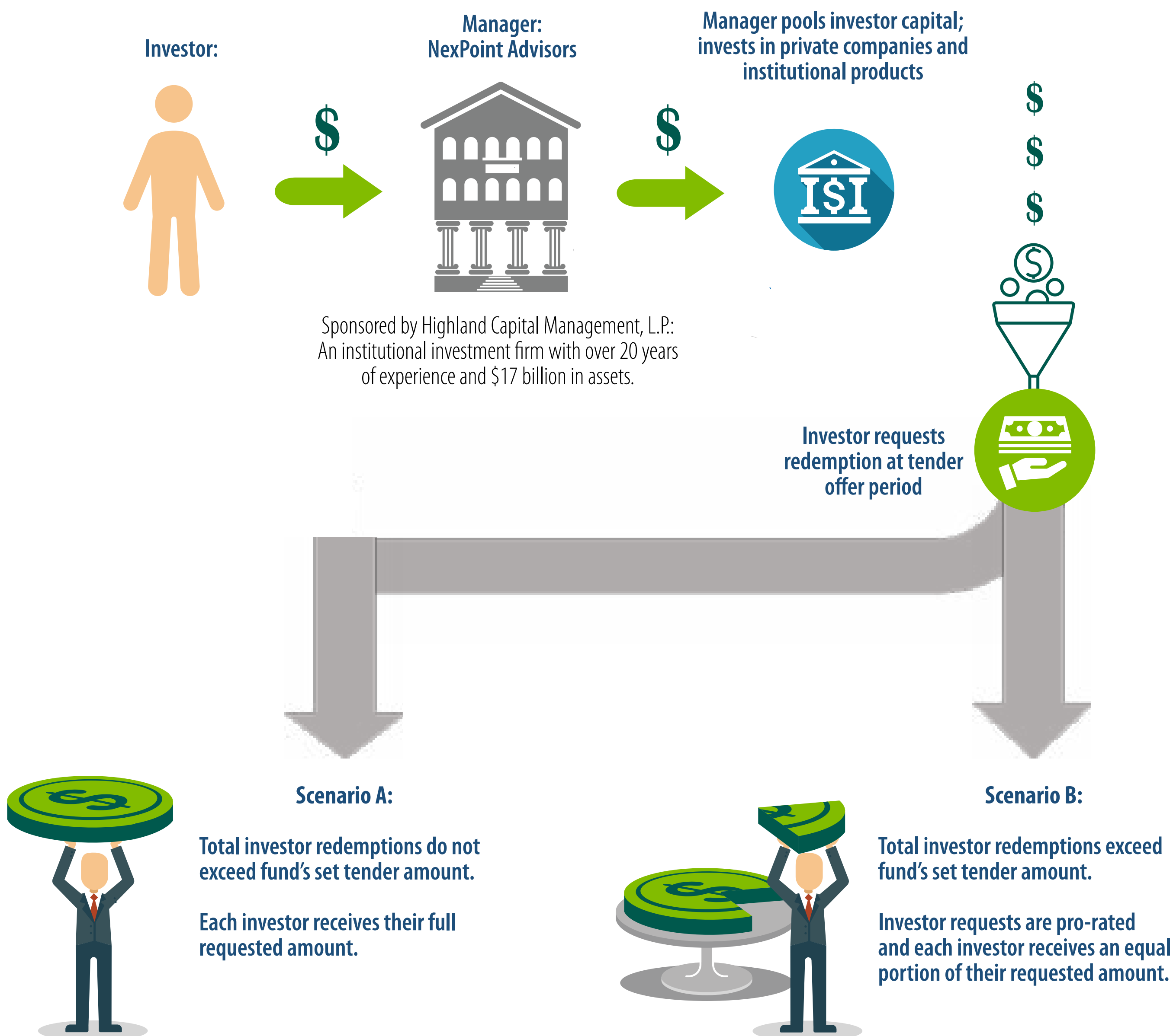
Due to an interval fund's ability to make investments in private companies which are not publicly traded, and therefore may not be as liquid as other investment types, interval funds may be subject to additional liquidity* risk.

Interval funds aren't suitable for investors who are seeking short-term investment goals. Instead, interval funds are more suitable to long-term investors as part of a well-balanced portfolio.

*Refer to the following page and to Risk Considerations section for more information on liquidity.

ARE INTERVAL FUNDS LIQUID INVESTMENTS?

Although interval funds have a redemption feature and are required to offer up to 5% of the fund each quarter (the "tender" amount of 5% or more is determined by the fund's board of directors), they should not be considered liquid investments. Interval funds are intended to be longer-term investments that give investors the potential for liquidity, but not a guarantee. In an instance where the total amount of investor redemptions exceeds the tender amount set by the fund's board, each investor that has submitted a redemption request will have their request pro-rated equally. This is the critical difference between the liquidity of an interval fund and a truly liquid investment. The below illustrations show how an interval fund redemption works in two different scenarios.



IS AN INTERVAL FUND RIGHT FOR YOU?

Interval funds may be beneficial for investors seeking:

- An alternative investment with the potential to generate income with solid risk-adjusted returns over a full market cycle.
- An alternative asset to complement a traditional 60% equity/40% bond portfolio, to potentially provide higher returns and added diversification over the long-term.
- A long-term investment with the potential to grow their capital and provide improved distributions.
- Exposure to private companies and institutional products as part of a well-balanced portfolio.

THE BOTTOM LINE:
Interval funds offer many benefits including the potential for income, capital appreciation, lower correlation, diversification, and access to institutional quality products. Interval funds may be suitable for long-term investors looking for a way to diversify their portfolio with an alternative product. To learn more about interval funds, speak with your financial advisor or reach a NexPoint Advisors investment representative by calling 844-485-9167.

IMPORTANT RISKS AND DISCLOSURES

The views and opinions expressed herein are for informational purposes only as of the date of this material and are subject to change at any time. This material is not a recommendation, offer or solicitation to buy or sell any securities or engage in any particular investment strategy and should not be considered specific legal, investment or tax advice. Reliance upon this information is at the sole discretion of the reader. Before investing in a fund, you should read the fund's prospectus carefully.

Closed-End Fund Structure. Closed-end funds differ from open-end management investment companies (commonly referred to as mutual funds) in that closed-end funds do not typically redeem their shares at the option of the shareholder. Rather, closed-end fund shares typically trade in the secondary market via a stock exchange. Unlike many closed-end funds, however, an interval fund's shares are not typically listed on a stock exchange. Instead, interval funds will provide limited liquidity to shareholders by offering to repurchase a limited amount of shares on an interval basis (typically quarterly) - more information on this can be found in a fund's prospectus. An investment in interval funds is suitable only for investors who can bear the risks associated with the limited liquidity of the shares and should be viewed as a long-term investment.

Repurchases of Shares. Interval funds typically make quarterly repurchase offers but there is no guarantee that shareholders will be able to sell all of the shares they desire in a quarterly repurchase offer because shareholders, in total, may exceed the Fund's maximum tender offer set by the Fund. If the amount of repurchase requests exceeds the number of shares the Fund offers to repurchase, the Fund will repurchase shares on a pro rata basis. Limited liquidity will be provided to shareholders only through the Fund's quarterly repurchases.

Liquidity Risk. Unlike many closed-end investment companies, an interval fund's shares are not typically listed on any securities exchange and are not publicly traded. There may be no secondary market for the shares and it's possible that no secondary market will develop. Limited liquidity is provided to shareholders only through the Fund's repurchase offer period. There is no guarantee that shareholders will be able to sell all of the shares they desire in a quarterly repurchase offer. The Fund's investments are also subject to liquidity risk. Liquidity risk exists when particular investments of the Fund would be difficult to purchase or sell, possibly preventing the Fund from selling such illiquid securities at an advantageous time or price, or possibly requiring the Fund to dispose of other investments at unfavorable times or prices in order to satisfy its obligations. Funds with principal investment strategies that involve securities of companies with smaller market capitalizations, derivatives or securities with substantial market and/or credit risk tend to have the greatest exposure to liquidity risk.

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