

A Comparison of Registered Fund Structures

Open-end mutual funds invest in a collection of stocks and bonds and have unlimited number of shares. Open-end funds do not trade on the open market, but are repriced at the end of each trading day, based on the amount of shares bought and sold. Their price is based on the total value of the fund or the net asset value (NAV).

Open-End Fund

Features

- Continuously offered
- Can engage in derivatives and short selling but must segregate liquid assets to cover the position
- 1099s to investors

Limitations

- Daily redemptions
- Must calculate the Fund's NAV on a daily basis
- Limited to 15% in illiquid securities
- No performance fee
- Fund of funds structure does not work unless the underlying fund interests are liquid such as a fund of mutual funds or ETFs

Closed-end funds are professionally managed investment companies. They generally issue a fixed number of common shares that are listed on a stock exchange. Once issued, a closed-end fund's common shares typically are not purchased or redeemed directly by the fund, but instead are bought and sold in the open market. The market price of closed-end fund shares fluctuates like that of other publicly traded securities. Closed-end funds invest in a wide variety of domestic and international securities, including common stocks, preferred stocks, high-yield bonds, municipal bonds, and corporate bonds.

Closed-end fund assets are invested in a wide range of securities.

Non-Traded Closed-End Fund

Features

- Continuously offered monthly closings
- No requirement for annual shareholders meeting
- No discount to NAV issues
- No limit to illiquid securities
- Typically calculates NAV monthly
- Can engage in derivatives and short selling but must segregate liquid assets to cover the position
- Can charge a performance fee (investors must all be "qualified clients")
- Can utilize a master/feeder structure to offer the fund through different distribution networks (i.e. RIAs vs. B/D) with different compensation structures

Limitations

- Engage in periodic tender offers to provide investors with some liquidity
- Fund of hedge funds or private equity funds can be offered to accredited investors only