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Navigating Interval Fund Governance: Key Considerations for Fund Directors

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Private markets have experienced rapid growth, and so have closed-end interval funds. The Securities and Exchange Commission's Investor Advisory Committee has called registered interval funds an "optimal way for retail investors to access private market assets."¹ Many mutual fund sponsors have begun sponsoring, or are considering sponsoring, interval funds for the first time, and may ask their existing mutual fund directors to sit on boards of such funds.

For independent directors accustomed to overseeing registered open-end mutual funds, the governance landscape shifts when considering registered closed-end interval funds. While interval funds share certain regulatory foundations with traditional mutual funds under the Investment Company Act of 1940 (the 1940 Act), their investment strategies, operational complexities, and liquidity mechanisms require different board oversight approaches. Understanding these distinctions is essential for any director considering service on an interval fund board, as certain responsibilities differ significantly from those applicable to open-end mutual funds. This article highlights certain key aspects of closed-end interval fund governance that are important for directors to consider in connection with service on an interval fund board.

Overview of Interval Funds and Illiquid Strategies

An interval fund is a closed-end investment company registered under the 1940 Act that can invest substantially more in illiquid assets than mutual funds or exchange-traded funds (ETFs).² This structure provides retail and high net worth investors access to private markets, including private credit, private equity, real estate, and other alternative asset classes that have historically been available only to institutional investors. A recent research report indicates that "interval funds significantly outperform both passive and active ETFs in illiquid and information-insensitive asset categories, particularly non-traditional fixed income, even after fees and expenses."³ This performance advantage stems from interval funds' ability to capture illiquidity premiums and access investment opportunities unavailable to daily-redemption vehicles. For directors considering service on an interval fund board, understanding these structural advantages and the investment strategies they enable provides essential context for the governance responsibilities that follow.

Private credit is currently one of the most prominent interval fund strategies. Private credit generally refers to corporate debt financing provided by non-bank lenders to private companies, typically

through privately negotiated loan agreements rather than public bond issuances, but it also can encompass a much broader universe of privately negotiated credit transactions focused on myriad asset classes. Strategies include senior secured corporate lending to middle-market companies, asset-based lending, and specialty finance. Loans typically are illiquid and held to maturity. The asset class expanded significantly after the 2008 financial crisis as banks reduced traditional lending, and has attracted investors seeking higher yields than public fixed income. Floating rate structures can provide interest rate protection, senior secured positions can offer downside protection, and the asset class typically has had a lower correlation to public markets. However, these investment structures carry risks, and interval funds depend on adviser expertise to underwrite, negotiate, monitor, oversee, and exit investments lacking secondary market liquidity. While an interval fund's investment adviser is responsible for the fund's investment strategy, directors overseeing interval funds with private credit strategies should consider whether they are sufficiently familiar with the key characteristics of private credit to provide effective oversight of the adviser.

Co-Investment

Private investment strategies often require the interval fund adviser (or sub-adviser) to negotiate directly with portfolio companies over documentation, covenants, and security arrangements that create the potential for conflicts when multiple affiliated funds participate. Because the fund's adviser negotiates these terms alongside an affiliate's investment in the same portfolio company, the Securities and Exchange Commission (SEC) requires that such co-investment transactions proceed under exemptive relief.⁴ These orders impose additional obligations on fund boards—including transaction-by-transaction approvals in certain circumstances by independent directors—and special oversight.

In contrast, the SEC permits registered funds to co-invest in “non-negotiated” private placement securities without obtaining an exemptive order

where terms other than price are not negotiated by the fund's adviser or sub-adviser.⁵ Mutual funds invest in non-negotiated private placements routinely, with board oversight focused on the adviser's allocation policies and procedures. Interval funds, however, frequently invest in negotiated private placements alongside affiliates, which often requires exemptive relief. The SEC has issued numerous exemptive orders to interval funds and other closed-end funds over the years permitting investments in negotiated private placements.

Exemptive orders require boards to approve certain categories of co-investment transactions individually. While recent exemptive orders have reduced the amount of board approvals required, many co-investment transactions still require advanced board authorization. Interval fund boards therefore require greater engagement between quarterly meetings than mutual fund boards. The terms of the transaction may be finalized only days before closing, requiring directors to review materials and respond to approval requests promptly. For each transaction, the fund's eligible directors must determine that: (1) the transaction terms, including consideration, are reasonable and fair to shareholders and do not involve overreaching; and (2) the transaction is consistent with shareholder interests and the fund's stated policies. Understanding the adviser's investment strategy, allocation process, and how the adviser considers factors such as investment size, pricing, and position in the capital structure can be helpful to a board's understanding of co-investments.

Approval requires both a majority of independent directors and a majority of directors without a financial interest in the transaction. Accordingly, prior to approval, directors may need to consider whether they hold financial interests in the target portfolio company or would otherwise financially benefit from the fund's investment.

Valuation

Valuation is another critical topic for interval fund boards. Rule 2a-5 under the 1940 Act requires

boards of registered funds to provide oversight of the valuation function.⁶ For more liquid securities, funds typically rely on pricing services that use available market data to determine valuations. These services engage with actual trade data, executable quotes, and matrix pricing based on comparable securities.

For illiquid securities such as directly originated loans and other private investments, market-based pricing approaches generally are unavailable. Instead, advisers fair value these securities often with assistance from independent valuation agents. Rather than market-based inputs, advisers and valuation agents rely more on valuation models and the judgment and expertise of valuation personnel. Pricing interval fund shares also can present operational challenges. Although interval fund portfolios typically contain a high proportion of illiquid securities, retail interval funds generally are priced daily, like mutual funds. Performing daily fair valuations for high levels of illiquid holdings requires dedicated operational resources to deliver accurate and timely net asset values (NAVs) to distribution partners and industry clearing systems. To provide effective oversight, interval fund directors may find it helpful to understand the key differences between market-based and non-market-based valuation approaches and the operational challenges that may be faced by daily priced interval funds.

Liquidity

An interval fund's liquidity mechanism represents perhaps the most fundamental structural distinction between open-end mutual funds and interval funds. While mutual funds must redeem shares daily at NAV, closed-end interval funds operate under a fundamentally different framework. Under Rule 23c-3, interval funds are required to make regular share repurchase offers to fund investors.⁷ Many interval funds offer to repurchase 5 percent of their outstanding shares at NAV once each quarter. This structure provides shareholders

periodic NAV liquidity while enabling managers to invest in assets too illiquid for daily-redemption mutual funds.

These structural differences require different board oversight approaches. While mutual fund boards focus on general oversight of liquidity risk management programs for daily redemptions, interval fund boards must approve each quarterly repurchase offer amount, establish repurchase policies and portfolio liquidity policies, and decide whether to suspend or postpone a repurchase offer.⁸ One of the situations that can arise for a board in performing these responsibilities is when repurchase requests from investors exceed the periodic repurchase limit. In those situations, fund boards may be faced with competing considerations: a fund accepting excessive repurchase requests could lead to unwanted asset sales, while limiting repurchases may frustrate shareholders seeking liquidity and potentially affect the fund's reputation and future capital raising. The foregoing responsibilities highlight the distinct nature of interval fund governance, in contrast to open end fund governance where daily redemptions typically occur automatically with little board involvement.

Board Governance Considerations

As demonstrated in this article, interval funds involve different board responsibilities and director competencies than traditional mutual funds. These responsibilities require boards to oversee sophisticated investment strategies, make transaction-specific approvals, oversee the adviser's valuation of assets lacking market prices, and balance competing considerations in repurchase decisions.

When an existing mutual fund board is asked to take on responsibility for an interval fund, incumbent independent directors should assess whether the board's current skills, knowledge, and composition adequately address these demands, and may wish to incorporate interval fund responsibilities and competencies into director education, recruitment

criteria, and succession planning. Boards and fund sponsors may wish to thoughtfully evaluate new director candidates for suitable skills and experiences. Relevant experience may include familiarity with private investments; corporate finance or capital markets experience; or experience relevant to oversight of valuations of illiquid assets. Boards and director candidates also should be mindful of potential conflicts of interest of directors that could impair the board's effectiveness.

Fund sponsors and boards also may wish to consider whether interval fund oversight is best conducted by a dedicated board or by an existing mutual fund board assuming additional responsibilities. Dedicated interval fund boards can develop specialized expertise, establish meeting cadences aligned with interval fund requirements, and avoid the potential for interval fund matters to receive insufficient attention alongside a larger mutual fund complex. Conversely, unified boards may benefit from economies of scale, broader governance perspectives, and the ability to leverage existing compliance and operational infrastructure. The appropriate structure will depend on factors such as the complexity of the interval fund's investment program, the fund sponsors' future business plans, and an existing board's capacity to absorb additional responsibilities.

Conclusion

Interval funds provide retail investors access to uniquely valuable investment strategies and asset classes, but they come with correspondingly unique board responsibilities. These responsibilities call for engaged oversight by fund directors and careful consideration of governance matters. As interval funds continue to grow, oversight by their boards of directors will remain essential.

Mr. Stevens is a Partner at Dechert LLP. He focuses his practice on the development, launch, and operation of registered closed-end funds and business development companies, including interval funds and tender offer funds, that are designed to give retail and high net worth investors access to private markets.

NOTES

- ¹ Recommendations of the Investor as Owner and Market Structure Subcommittees of the SEC Investor Advisory Committee: Retail Investor Access to Private Market Assets (Sept. 18, 2025).
- ² 1940 Act Rule 22e-4(b)(1)(iv) limits a mutual fund's or ETF's investments in illiquid assets to 15 percent of the fund's net assets. This significantly limits such funds' investments in illiquid securities, including private credit, private equity, real estate, and other alternative asset classes. In contrast, an interval fund is not subject to the 15 percent limit and has flexibility to invest to a much greater degree in illiquid assets, which makes it a more suitable investment option for efficient exposure to alternative asset classes.
- ³ Pegoraro, Stefano and Shive, Sophie and Zambrana, Rafael, "Democratizing Illiquid Assets: Liquidity Transformation and Performance in Interval Funds" (June 12, 2025).
- ⁴ Section 17(d) of the 1940 Act and Rule 17d-1 thereunder prohibit "joint transactions" between a registered fund and any fund affiliate, including negotiated co-investments in private placement securities.
- ⁵ Massachusetts Mutual Life Insurance Co., SEC No-Action Letter (June 7, 2000).
- ⁶ 1940 Act Rule 2a-5(b)(1).
- ⁷ 1940 Act Rule 23c-3.
- ⁸ *Id.*

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