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A Notice for Clients Who Purchased or Who Anticipate Purchasing Interval Funds

In the past few years, our industry has seen significant growth in the availability of "interval funds." These are semi-liquid closed-end funds that bridge the gap between daily-liquid mutual funds and private placement funds. Most such funds allow liquidity only once per quarter. In other words, the owners of interval funds may only have the ability to attempt to sell some or all of their holding four times per year. By limiting the liquidity opportunities, some of the managers of these funds have the ability to invest in less liquid, higher yielding instruments that are beyond the reach of daily-liquid funds. Other managers might invest in semi-liquid, higher-growth opportunities like private equity and/or real estate.

The interval fund structure provides access to strategies that had only been available through private placements, but they provide it in a package with most of the conveniences of a mutual fund. For clients with no short-term liquidity need, these funds can provide potentially higher levels of income with less volatility and/or exposures to other semi-liquid asset classes. Unlike private placements, most interval funds provide a daily NAV pricing, and they all use 1099 tax reporting as opposed to K-1s.

The subscription process for an interval fund is also much simpler than that of a typical private placement. Most of the newer interval funds can be purchased on any business day with no fund-specific subscription forms required. Some of the older versions may only be purchased on one day each month; these funds typically require the execution of a one-page subscription agreement.

As mentioned above, most interval funds have quarterly liquidity, meaning that shares of the fund may only be redeemed once per calendar quarter, usually at the end of the quarter. Even then, the total amount of the fund that can be redeemed is capped, usually at 5% or 10% of the fund's NAV. So, there is a risk that, in a quarter when clients want to liquidate their positions in one of these funds, they'll be able to liquidate only a portion of their holdings. In most quarters there will be relatively few redemptions and they will all be satisfied in full. However, if market action in a quarter causes a rush for the exits, liquidation requests will likely be capped and pro-rated.

You should note that, because interval funds evolved out of a desire to offer the types of exposures available in private placement funds to a wider audience, by their nature, most interval funds provide exposure to more exotic asset classes than typical mutual funds. While the fund managers endeavor to provide that exposure in a lower volatility format, there is no assurance that the manager will be able to do so. You should always make sure you understand the asset class to which any fund you buy has exposure. You should also understand the risk and reward characteristics of that exposure.

Because interval funds look and feel so much like traditional mutual funds, there is a heightened risk that clients might be unclear on the limited liquidity nature of these funds. Out of an awareness of that risk, our firm has placed internal limits on advisors who wish to make client purchases of interval funds for their clients.

Interval Funds are complex products and are not suitable for all investors. The risks identified above are not exhaustive. There are a wide variety of interval funds available, with attributes which affect their risks and potential rewards. Before making any investment decision, you should carefully consider the investment objectives, risks, charges, and expenses before investing in this product. This and other important information are included in the offering documents, which can be obtained from your Financial Advisor and should be read carefully. Benjamin F. Edwards & Co.® does not provide tax advice. You should obtain advice from your financial, legal and tax advisers for information about and analysis of the investment, its risks and its suitability in your particular circumstances.