

Closed-End Funds

Characteristics

An important aspect of closed-end fund investing is to read the fund's prospectus carefully before investing. Each closed-end fund prospectus contains important information that will help you make an informed decision about an investment in a closed-end fund. In deciding whether to invest in a closed-end fund, you should consider several different factors, including the fund's investment objective, investment strategies and risks, the investment adviser responsible for the management of the fund's assets, and the fees and expenses associated with an investment in a particular closed-end fund.

Similar to mutual funds, closed-end funds are pooled investment vehicles. However, there are some important differences between these types of funds.

Unlike mutual funds, most traditional closed-end funds do not continuously offer their shares for sale. Instead, such funds typically sell a fixed number of shares through an initial public offering, after which their shares typically trade on a secondary trading market. The price of shares in a closed-end fund that trades on a secondary market after their initial public offering is determined by the market and may be higher or lower than the shares' NAV. In addition, there are certain non-traded closed-end funds that do sell their shares on an ongoing basis, and do not trade on a secondary trading market.

Many closed-end funds have no "maturity" or termination date, and shareholders may exit their investments only by selling shares on the secondary trading market. Nonetheless, these closed-end funds without termination dates may still be terminated based on the investment manager's decision. Certain other closed-end funds, however, have a specified or targeted termination date, at which time the shareholders receive an amount equivalent to the shares' NAV at the termination date. Non-traded closed-end funds typically contemplate having a "liquidity" event at some point once the fund's offering has ceased. Liquidity events include listing the fund's shares on a secondary trading market and liquidation.

Unlike mutual funds, closed-end fund shares are not redeemable, which means that the fund is not required to buy shares back from investors upon request. Non-traded closed-end funds typically offer to repurchase their shares from investors in periodic tender offers.

Fees and Costs

You will typically pay a sales charge when you buy shares in a closed-end fund's public offering, or a commission if you buy and sell shares in a closed-end fund in a secondary trading market. You will pay this sales charge or commission in addition to the amount of the fund you choose to buy or sell.

Closed-end funds also deduct other ongoing fees and expenses, such as management fees, from fund assets. These ongoing fees and expenses, which are reflected in the fund's overall expense ratio, are typically used to pay for the fund's continued operations, such as paying the fund's investment manager, accounting and auditing expenses, legal expenses, and recordkeeping expenses.

These ongoing fees and expenses are typically charged daily as a percentage of your assets. You pay these fees and expenses indirectly because they are deducted from your assets on an ongoing basis.

More Information

More information on the sales charges, ongoing fees and expenses, and overall expense ratio for closed-end funds, including interval funds, is available in the fund's prospectus.

Exchange-Traded Funds

Characteristics

Exchange-Traded Funds (ETFs) are investment funds that are listed for trading on a national securities exchange and can be bought and sold in the equity trading markets. Shares in the ETF represent an interest in a portfolio of securities.

ETFs possess characteristics of both mutual funds and closed-end funds. Similar to mutual funds, an ETF pools assets of multiple investors and invests those pooled assets according to its investment objective and investment strategy. ETFs also continuously offer their shares for sale like mutual funds. In addition, ETFs share certain characteristics with closed-end funds, namely that the fund's shares trade on a secondary market and may trade at prices higher or lower than the fund's NAV.

However, ETFs do not sell or redeem individual shares. Instead, certain "authorized participants" have contractual arrangements with the ETF to purchase and redeem ETF shares directly from the ETF in blocks called "creation units" and "redemption units," respectively, where each creation or redemption unit typically represents 50,000 shares of the ETF. After purchasing a "creation unit," the authorized participants generally sell the ETF shares in the secondary trading market.

This creation and redemption process for ETF shares provides arbitrage opportunities designed to help keep the market price of ETF shares at or close to the NAV per share of the ETF. For example, if ETF shares are trading at a price below the NAV (generally referred to as a "discount"), an authorized participant can purchase ETF shares in secondary market

transactions, and – after accumulating enough shares to compose a “redemption unit” – redeem them from the ETF for the more valuable underlying securities. The authorized participant’s purchase of ETF shares in the secondary market would create upward pressure on ETF share prices, which would bring them closer to the NAV per share of the ETF.

Fees and Costs

You will typically pay a commission every time you buy or sell shares in an ETF. You will pay this commission in addition to the amount of the ETF you choose to buy or sell.

ETFs also deduct ongoing fees and expenses, such as management fees, from ETF assets. These ongoing fees and expenses are typically used to pay for the ETF’s continuing operations, such as paying the ETF’s investment manager, accounting and auditing expenses, legal expenses, and recordkeeping expenses. However, ETFs generally have lower expense ratios than mutual funds because most ETFs are not actively managed and, therefore, do not incur the internal costs of buying and selling the underlying portfolio securities.

These ongoing fees and expenses are typically charged annually as a percentage of your assets. You pay these fees and expenses indirectly because they are deducted from your assets on an ongoing basis.

More Information

More information about ETFs, including their ongoing fees and expenses and overall expense ratio, is available in the ETF’s prospectus.