Tender offer funds

Tender offer funds are continuously offered closed-end funds that are not listed on a stock exchange and seek to provide investors with liquidity by offering to repurchase a percentage of their outstanding shares. The funds are permitted to offer an unlimited number of shares and sell them on a continuous basis; however, shares are not redeemable upon request by the shareholder on a daily basis.

How do tender offer funds differ from open-end funds and traditional closed-end funds?

Tender offer funds are organized as closed-end funds, which differ from open-end management investment companies (commonly known as mutual funds) in that closed-end fund shareholders do not have the right to redeem their shares on a daily basis. In order to meet daily redemption requests, mutual funds are subject to more stringent regulatory limitations than closed-end funds. In particular, a mutual fund generally may not invest more than 15% of its assets in illiquid securities.

In addition, tender funds differ from traditional closed-end funds because they do not provide liquidity on the secondary market (i.e., a stock exchange), but rather through periodic tender offers for repurchase of shares, typically at net asset value ("NAV").

Shareholders do not have the right to require a fund to repurchase any or all of their shares. At the discretion of the Board and provided that it is in the best interests of the fund and its shareholders, a fund may offer to repurchase shares at NAV by conducting repurchase offers for a portion of its outstanding shares.

How are tender offer funds regulated?

Tender offer funds are registered under the Investment Company Act of 1940, as amended, and its shares are registered under the Securities Act of 1933, as amended.

What is the tax treatment of tender offer funds?

Typically, tender offer funds are classified as an association taxable as a corporation for U.S. federal tax purposes. This association is usually a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended.

Shareholders will normally be taxed on their fund distributions, unless their shares are held in a retirement account that permits tax deferral or the holder is exempt from U.S. federal income tax. Tax reporting is typically made on Internal Revenue Service Form 1099.

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