



WHITE PAPER

Bonus share programs in retail alternatives

Why they're gaining traction and what it takes to implement them

Executive summary

Bonus share programs are quickly emerging as a differentiated strategy within registered retail alternative funds, particularly in interval and tender offer structures. As fund sponsors look for new ways to attract and retain capital, these programs offer a compelling incentive—but introduce significant operational and reporting complexity.

Unlike private markets, where founder or anchor share structures are more established, the registered fund ecosystem lacks the infrastructure to support bonus share allocations at scale. There are no standardized transaction codes, and existing industry utilities such as NSCC Fund/SERV and DTCC AIP do not currently accommodate these programs. As a result, implementation relies heavily on manual processes across transfer agents, custodians, intermediaries and reporting platforms.

This creates a range of downstream challenges, particularly in cost basis tracking, tax reporting and performance measurement. Inconsistent handling across platforms increases operational risk and places a premium on coordination and communication across the ecosystem.

Through ongoing client engagement and industry discussions, six primary methodologies for allocating bonus shares have emerged, each with distinct tradeoffs. While no single approach solves for all constraints, some offer a more practical path forward given current infrastructure limitations.

As adoption grows, fund sponsors must carefully evaluate not only the economic and distribution benefits of bonus share programs, but also the operational readiness required to support them. Until industry standards evolve, successful implementation will depend on thoughtful program design, clear communication and strong alignment across all participants in the fund servicing model.

INTRODUCTION

The registered retail alternatives market is evolving rapidly, driven by increased demand for access, product innovation and competition for investor capital. As interval funds and tender offer funds continue to gain traction, fund sponsors are exploring new ways to differentiate their offerings and enhance investor outcomes.

One approach gaining momentum is the introduction of bonus share programs. Conceptually similar to founder or anchor share structures in private markets, these programs aim to reward early or committed investors by allocating additional shares based on participation criteria. While the concept is straightforward, implementing it within the registered fund framework is anything but.

The operational reality is that the current ecosystem was not designed to support bonus share allocations. Transfer agents, custodial platforms, wealth management systems and performance reporting tools all rely on standardized transaction processing, which does not yet exist for these types of programs. As a result, what appears to be a simple incentive at the product level quickly becomes a complex, multi-party operational challenge.

Industry groups and market participants are actively discussing how best to approach these programs, but there is no consensus on a standard methodology. In practice, firms are developing and testing different approaches, each requiring varying levels of manual intervention, system customization and coordination across stakeholders.

This paper outlines the key operational considerations associated with bonus share programs in registered retail alternative funds, highlights the primary risks and constraints, and examines the methodologies currently being explored across the industry.

THE INDUSTRY CHALLENGE: NO STANDARD MODEL

Despite growing interest, the infrastructure supporting registered funds has not evolved to accommodate bonus share programs.

Today, there are no standardized transaction codes to identify bonus share eligibility or allocation. Industry utilities such as NSCC Fund/SERV and DTCC AIP do not support these programs, forcing firms to rely on manual processes and custom development across systems.

This lack of standardization creates friction across the entire servicing ecosystem. Transfer agents, custodians, wealth platforms and performance reporting tools must each interpret and process these transactions independently. The result is inconsistent handling, increased operational risk and a heavy reliance on coordination between parties.

What appears to be a straightforward investor incentive quickly becomes a complex, multi-step operational process.



Key risk areas and considerations

Implementing a bonus share program introduces several interconnected challenges that fund sponsors must address early in the design process.

COST BASIS AND TAX REPORTING

Bonus shares often carry unique cost basis treatments, including zero-cost allocations or adjusted lot pricing. These approaches can create complexity in tax reporting, particularly when transactions span multiple tax years or involve clawback provisions.

PERFORMANCE REPORTING

Many performance reporting platforms are not designed to interpret bonus share allocations consistently. This can lead to distortions in reported returns and create discrepancies across investor statements.

OPERATIONAL COMPLEXITY

Without standardized processing, bonus share programs require manual intervention across transfer agents, custodians and intermediaries. This increases the risk of errors and delays, particularly at scale.

CLAWBACKS AND HOLDING PERIODS

Programs that include early redemption penalties or clawback provisions introduce an additional layer of complexity. Existing mechanisms such as CDSC and short-term trading fees are not designed to support these scenarios.

COORDINATION ACROSS STAKEHOLDERS

Successful implementation depends on alignment across transfer agents, custodians, broker-dealers and wealth platforms. Communication is critical, as each participant must adapt their processes to support the program.

THESE CONSIDERATIONS IMPACT FLOW ACROSS THE FUND SERVICING ECOSYSTEM



Transfer Agent

Processes allocations, maintains record and manages shareholder accounts



Custodian

Safekeeping, reporting and position records must reflect bonus share activity



Broker-Dealer/ Intermediary

Trade, holding and accounting, systems must interpret and report consistently



Wealth Platforms

Positions, performance and statements must reflect correct share counts and basis



Reporting & Analytics

Consideration, tax reporting and analytics must be accurate and consistent

EMERGING APPROACHES TO BONUS SHARE ALLOCATION

In the absence of a standardized model, firms are developing their own approaches to implementing bonus share programs. Through client engagement and industry discussions, six primary methodologies have emerged.

Each approach attempts to balance investor experience, operational feasibility and regulatory considerations. However, no single methodology fully addresses all constraints, and tradeoffs are required in every case.

Method	How It Works	Pros	Cons	Operational Complexity	Tax/Reporting Impact
Stock Award (Preferred)	Shares granted from existing holdings with \$0 cost basis	Simple concept, aligns with existing structures, minimal system disruption	100% gain at redemption, requires coordination across firms	Medium	Straightforward but results in full taxable gain
Stock Split / Share Adjustment	Increase shares, reduce cost basis pro rata	Familiar structure conceptually	Not supported by intermediaries, requires manual lot adjustments, system limitations	High	Complex cost basis recalculation across lots
Return of Capital (ROC)	Special distribution reclassified as ROC	Uses existing distribution mechanisms	Complex execution, poor performance reporting alignment, requires year-end reclassification	High	Impacts 1099-DIV, not clean for investors
As-of Fully Loaded Purchase	Adjusts original purchase to reflect bonus	Aligns with standard gain/loss treatment	Breaks AIP, requires retroactive adjustments	Very High	Impacts historical reporting and tax lots
Cancel/Rebook	Rebooks trades to reflect adjusted share count and pricing	Maintains economic value consistency	Significant system disruption, complex tax lot updates	Very High	High risk of reporting inconsistencies
Clawback / Penalty Model	Bonus shares issued with holding period + penalty	Aligns with investor retention goals	No existing infrastructure to support tracking or enforcement	Very High	Complex across tax years and redemption scenarios

A PRACTICAL PATH FORWARD

While multiple approaches are being explored, the stock award method is currently emerging as the most practical option under existing infrastructure constraints.

This approach aligns most closely with existing processing capabilities and minimizes the need for complex system adjustments. However, it still requires coordination across stakeholders and introduces tax considerations that must be clearly communicated to investors.

More complex methodologies, such as stock splits, ROC distributions or cancel/rebook approaches, introduce significant operational and reporting challenges that may outweigh their intended benefits.

Until industry standards evolve, fund sponsors should prioritize approaches that:

- Minimize manual intervention
- Align with existing system capabilities
- Reduce downstream reporting complexity

CONCLUSION

Bonus share programs represent a compelling opportunity for fund sponsors to differentiate their offerings and attract investor capital. However, the current ecosystem is not designed to support these programs seamlessly.

Without standardized infrastructure, implementation requires careful planning, cross-platform coordination and a clear understanding of downstream impacts. The absence of consistency across processing, tax treatment and reporting introduces operational risk that must be actively managed.

As adoption grows, industry alignment and standardization will become increasingly important. In the meantime, firms that approach bonus share programs with a clear strategy and operational discipline will be best positioned to deliver them successfully.

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