Panelists discuss institutional investing and trading in closed-end funds to open the 2020 AICA Summer Summit.

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Ed Keating from Lazard Asset Management, Matt Leffler from RMB Capital Management, Doug Bond from Cohen & Steers, and Jonathan Browne from Robinson Capital were panelists at the AICA Summer Summit held on August 13. The moderator of the panel was John Cole Scott of Closed-End Fund Advisors. Read the transcript from the discussion below to hear the insight from the panelists.

John Cole Scott

Ed Keating

Matt Leffler

Doug Bond

Jonathan Browne

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John Cole Scott: All right, so wanted to introduce this panel and really this panel is the type of panel that got me very excited for this event. The ability to bring together folks that live and breathe closed-end funds every day, and yet also are very different in their approaches to it and can speak to that from their experience both in the clients that they have as well as the type of investments that they make.

And so we do want to remind you, there's a couple features, there's a chat functionality in this system. You're able to login and start chatting with each other if you'd like to engage as an attendee of this conference. Hopefully you'll make good use of that during this session. And if there are questions, I've got

the email box up to my left. If you see me looking that way, that's what I'm doing to see who's asking some great questions. Please queue them up during the prepared remarks. We have bucketed about 10 to 15 minutes for your questions and answers, which is very important for all of us.

So with that, saying that the reason I put this panel together was a diverse, and historical, and experience on this panel. I'm going to let everyone, I'd say 60 seconds because I told you in the email last night, we have a lot of ground to cover and we want to make sure we get to every topic on our list. Your firm, your background, and just kind of your flavor on closed-end funds. And for that, let's go ahead and start with Ed.

Ed Keating: Good morning everybody. John, thanks every much for your time and allowing us on this panel. I too am excited, but I work for Lazard Asset Management as part of the discounted assets team, where we've been investing in closed-end funds now for over 35 years. So quite a long and successful business we've been able to build at Lazard.

John Cole Scott: Great. Matt?

Matt Leffler: John, thanks for allowing us on the panel. Good morning to everyone as well. I'm Matt Leffler and I work for RMB Capital Management. My team manages a hedge fund, the Logan Stone Capital that focuses on absolute return, and a large portion of that is investing in closed-end funds. We've been doing so for a little over a decade.

John Cole Scott: Great. Doug Bond?

Doug Bond: Hi John, thanks a lot everybody. Doug Bond, I work at Cohen & Steers, our firm is a listed real assets company. Many people know us for our expertise and innovation in the real estate securities investment field, but we've got a bunch of other investments disciplines under the roof focused on inefficient parts of the market. Preferred securities, listed infrastructure, real assets, and the part that I focused on is the closed-end fund market, which we think is consistent with the firm's focus on parts of the capital market that are pretty inefficient.

John Cole Scott: Great. Jon?

Jonathan Browne: Yeah, thanks John and good morning everyone. My name's Jonathan Browne, I'm a manager of Roberson Opportunistic Income Fund and the Robinson Tax Advantaged Income Fund. Just as sort of a quick intro, Robinson Capital is an independent investment advisor that was found in 2012 and we specialize in alternative fixed-income solutions, primarily focusing on closed-end funds. As I stated, I currently manage two income focused mutual funds and several fixed-income separately managed accounts.

John Cole Scott: Great. First, if you longer bio, on our AIC Alliance website you click on their names and read their actual academic bio if you'd like. But I want to jump in and start the panel with answering these four questions. I'll do all four, hopefully you have them with you in front of you. But we want to see in your perspective, what are your clients looking for when they hire your firm? And then, how would you describe your use of closed-end funds, and what types of funds do you normally use? And then at the same time, just give folks in the audience of how does turnover look and feel at your firm for your use of closed-end funds? And starting this out, again we'll go with Ed.

Ed Keating: Great. Why clients come to us, what are they looking for when they hire Lazard? Like many clients are looking for, alpha. They're looking for the consistency of results, good returns, and in this case, utilizing we think of still is the most inefficiently priced and largest universe of equities. So we predominately are an equity investor, meaning we own closed-end funds as well as holding companies and the investment trusts of the UK that focus on equities.

In terms of our use of these funds, we're very long-dated investors. We have an engagement strategy as well, so we're working with managements, we're working with boards to improve the governance of these funds, and therefore extracting that further alpha as we see discounts narrow. And with respect to the types of funds, we do invest globally. While the majority of our investments are listed on either the London or New York Stock Exchange, we have investments listed throughout Europe and Asia. And we keep an eye on the growth of the universes, frankly around especially Asia and places like India and mainland China.

Turnover for us, given our long-dated nature, given our long horizon in terms of how we're investing our clients capital, the turnover's quite low, typically sub 15% per annum. And no, we don't short, we don't hedge, we're long only, long-term investors.

John Cole Scott: Great, thank you. Matt?

Matt Leffler: Yeah, thank you John. Our firm is an equity market mutual firm. It's looking for absolute returns that are consistent across time, so our end investors are really looking for uncorrelated, consistent returns to diversify their portfolio. Contrary to Ed's use of closed-end funds, we tend to be more tactical in nature. Our honing periods are kind of more of an intermediate holding period, think probably a few weeks to as long as maybe a quarter. Typically we're agnostic in our use of closed-end funds, so we'll typically invest in any closed-end funds with the exception of some of the closed-end funds with more esoteric holdings. Our turnover, as I mentioned, tends to be about a month to two months on average. We do hedge all of our exposures actively, and we do actively short closed-end funds when we feel that they may be overpriced in the market.

John Cole Scott: Great. Doug?

Doug Bond: Sure. So I think echoing what Ed said, if you're going to hire an active manager in a world where there's tons of alternatives in terms of passive investment approaches to the marketplace, number one, it's to out perform whatever the benchmark. And do that with a risk management system in place with a disciplined investment process and a repeatable disciplined investment process. So in most of the strategies that we offer, that out performance comes from a combination of income and capital appreciation, those are the general investment goals. And specifically in the area of active management of closed-end funds, our portfolio turnover is generally in the 30-40% area over time. Although in other periods of time in a more turbulent market, times where that can be 80-100%. We don't short.

John Cole Scott: Jon?

Jonathan Browne: Yeah, so in general the clients who generally typically invest in our funds, they're looking for actively managed fixed-income portfolios that produce an above average income stream. What we're also cognizant about is also being able to manage risks associated with closed-end funds, whether that be credit or interest rate risk. In terms of how we describe our use, we're strong believers in being an active manager of closed-end funds, ultimately to take advantage of the dislocations that appear in the space. We're predominantly, as I mentioned, a fixed-income shop, so we're usually looking at both taxable and municipal fixed-income closed-end funds. And as I just stated, being an active manager we typically average around 100% turnover and our funds do hedge, or as we say, manage both credit and interest rate risk based on our views in the market.

John Cole Scott: Great, a good start to the panel. So this question is primarily for Matt, why are closed-end funds generally good for active investors and particularly with smaller non-institutional investors?

Matt Leffler: Yeah John, I think that's a really good question. Why come to the closed-end space in the first place? I think from my point of view there's really three good reasons why investors might want to look at closed-end funds. The first of which is essentially there's a real equal access to information in the closed-end fund space. You don't need to be one of the large money managers to find all the information

available as an investor in closed-end fund. Obviously everyone should do their homework but it's readily publicly available, you're not relying on analysts to look under the hood at an individual business in a small cap stock or something. All the metrics are generally available to the public.

The second thing, which is again equally important for some investors, is the closed-end fund universe and the assets it covers is really vast. So you can definitely access different portions of the market that are usually largely unavailable for individual investors through closed-end funds. And then the last reason and this is kind of the most obvious reason, is throughout time closed-end funds really offer to ability to generate excess returns. They really are a perfect niche for active investors. The excess returns can be generated consistently across time and can really be additive to one's overall return stream.

John Cole Scott: Great, and so I'm going to remind the panellists, based on the time only chime in after someone else's primary question if you've got something really important. Because I think we're going to run out of time if we don't do that.

All right, so the next question is for Ed. So what are some of the things you have done to become such a large and dedicated closed-end fund investor and trader in this space?

Ed Keating: Frankly, some simple things. One, we've been very, very patient in the space, and we've been here for a very long time. We first started managing our strategies on behalf of generally institutional investors back in 1984. Certain clients have been with us now for several decades, and those are fun conversations to have with clients when you can cover a decade plus, if not two decades plus worth of returns and experiences. But importantly, I think this is quite important to any investment approach whether it be talking about closed-end funds or not, is we stuck to a very dedicated investment discipline. We've not changed over time. The market certainly has changed, and as Matt points out, the market in terms of what it offers us in the availability of a variety of asset classes or regions or types of underlying equities, that's a wonderful thing as that continues to evolve, and then we continue to apply that same successful process to the space and extract the alpha from that standpoint.

We've been very fortunate in terms of our size to maintain some long-term relationships. Our clients have been very happy with their long-dated returns, and frankly they've become fans of closed-end funds themselves. They witness certain volatile periods, they understand in terms of how closed-end funds operate during the good times and the bad times, and therefore that investor education, as part of our job as their managers, has been quite good and it's certainly paid dividends over the years.

John Cole Scott: Great, thank you. Next question is for Doug, with your long history in closed-end funds, both creating them as well as working in a closed-end fund shop, and of course your main work is building products, how do you think about them as more than just discounts and yield?

Doug Bond: Well, I think that the evergreen characteristics of closed-end funds which often get people interested, at least in the U.S. market, there's a wide variety of choices of high incomes and many of the funds most of the time sell at a discount to their book value, their underlying value. And those are certainly features of the closed-end fund market that are important to look at. But if you actually examine historically the relationship between discounts and forward returns, other than municipal closed-end funds, there's not a great relationship between discounts and forward returns.

If there was, you'd see that the bigger is the discount, the bigger is the forward return. That's not the case for equity closed-end funds and that's also not the case for broad indices of taxable fixed-income funds. The only exception to this is when you get into those really turbulent market periods which offer what we would characterize as the closed-end fund fat pitch zone. So that's when discounts are, just say for a round number, in excess of 9% for munis or equities or taxable fixed-income closed-end funds, then you see forward one-year returns averaging sort of in the 20+ area for those asset classes and those major categories of funds.

But away from that, it's really more about the underlying asset class, understanding what is going to cause the underlying asset class to perform well. And for example in the current environment, if you're thinking about being willing to take on cyclical business risk, making the decision of whether or not you want to take that risk buying equities or something in the fixed-income world like high-yield bonds which often exhibit equity-like return characteristics, which of those two would you prefer to own? So I think beyond the discounts and the yields, it's asset classes.

John Cole Scott: Great, thank you Doug. Jon, you're next. I'm curious how you deal with active portfolio selection of closed-end funds. How do you monetize discounts and mitigate risks for your clients?

Jonathan Browne: Sure. Yeah, so we are I'm sure similar to everyone here on this panel. We viewed the closed-end fund space as one of the last bastions of inefficiency in the public markets today, which warrants an active management style to take advantage of those dislocations. Now obviously there's numerous theories and rationale as to why discounts exist in the first place, but we notice that there's a large number of inefficiencies that occur on a day to day basis which mostly has to do with, for lack of a better word, sloppy trading.

It's not uncommon for us to see someone buy or sell a block at the market and move the price in a meaningful way. This is really where an active trading approach can add value, by being able to track in real time any disconnect and then ultimately take advantage of it. More specifically, we utilize our proprietary real-time models to quantify and rank closed-end funds, and then we also utilize our institutional trading bench and relationships to consistently migrate into funds that we deem to have the best risk/reward profile and ultimately shed those that have the worst.

In terms of managing risks, we utilize our mutual fund structure to efficiently dial down any unwarranted or unwanted risks. We generally do that via shorting future contracts. An example of this is municipal closed-end funds, they generally tend to focus more on investment grade paper and therefore are required to go further out the curve to achieve their yield objectives. This leads to long and levered durations in the muni closed-end fund space, which may not be ideal with rates at all time lows. We have the ability to reduce that duration via our risk management or hedging process.

John Cole Scott: Great, thank you. So next question is for everyone so let's pull it back together. And again, I sent this to you last night but I thought of the question yesterday, I can't believe it didn't come up in this depth on our prep call. But for those that didn't notice, March of 2020 was a little bit rough for discounts. It was, by our calculations, the worst quarter for closed-end funds in any information I can track down. And right now it's 174 days from that discount high when I was recording a podcast in New York City for *The NAVigator*, and only 147 days from the low, so a 27 day carnage event.

How did you deal with this volatility? Thinking how we felt about the market, it reminded me of '08-09 but just so much faster. So how did you deal with it? What did you learn from it? What would you share with folks? Because again, when we always say, "I love closed-end funds," I was born owning them so I'm definitely a cheerleader. But the one thing that you can't control is volatility. We had such a recent time, how did you deal with that volatility, how did you communicate with your clients, and any other tidbits of interest. So for this response we're going to go with Ed first.

Ed Keating: Yeah, and John, as your data set shows and our research shows, we too had never seen such a violent move in discounts over such a short period of time, and yes, there was some spring back. I think first and foremost, when you speak with clients on this front, this shouldn't surprise them. Our job as their managers is to make sure that they're well aware of how discounts can move, particularly during this big-- they're called beta events like we saw back in March. So frankly, when this happens it's not a big surprise for investors.

How we reacted during this period? We were buyers. We were quite excited. Frankly, we need volatility, we need this inefficiency in order to drive alpha for our clients. If discounts are a flatline, that's not a whole lot exciting for investors such as ourselves. So this is a period that we're able to take advantage of these discounts and of these inefficiencies.

And I think in addition to this, still today while your data shows you're kind of set a 27 day period of carnage, the discounts still very much exist today, especially if you look out to Europe and across Asia. Today we're investing at discounts still wider than 20% across our portfolios. So it's a careful nuance here in terms of looking at data that is focused on U.S. and non-U.S. data, and having a view and having the wherewithal to make those investment selections where you find the best value. And sometimes that is offshore, sometimes that is over in Asia or elsewhere.

John Cole Scott: Great. Matt?

Matt Leffler: I'll largely echo a lot of what Ed just said. As probably the most active trader on this panel, we really love the volatility first off. We've kind of structured our portfolio in a way that is designed to benefit from volatility. But that kind of construction aside, I think what's really important is to make sure that whether it be your communications to your end clients or your portfolio design, that it's really built with two thoughts in mind.

First, that closed-end funds, they are less liquid instruments, when markets hit pockets of turbulence, they are going to down more than their asset classes. It happens reoccurringly and it really needs to be modelled in and thought through thoroughly by a closed-end fund investor. The second thing is the leverage inherent in most closed-end funds. Again, it's an exercise of figuring out what your risk tolerance is, what your client's risk tolerances are, communicating that these pockets of volatility usually provide good opportunity but they can be painful at times. So it's really a modelling and communication effort from my standpoint.

John Cole Scott: All right, Jon?

Jonathan Browne: Yeah, I think we're all going to be in agreeance here. Discount volatility, it's a double edged sword. On one hand it forces you to talk investors off the ledge per se. When discounts are at their widest level and performance looks the worst, that's generally when you want to be adding to your position, not selling. On the other hand, that environment where discounts are extremely volatile, it's typically where an active manager can thrive and add the greatest amount of value or additional returns via security selection. That's essentially what we saw during this period. We were able to capture a lot of alpha by finding massive disconnects within the underlying markets. We believe the endgame is ultimately is for discounts to go to zero and patient investors can come out well ahead as that flight to quality reverses.

John Cole Scott: Great. Doug, anything from you?

Doug Bond: Well, I'll just say that one of the things that we do with our portfolio is we have a certain amount that's invested in ETFs, which are all traded at NAV during this period. So at the margin, we were sellers of some of the general stock exposure that we had through S&P 500, ETFs and bought a range of different discounted closed-end funds in this period. But to us the difference between this period and '08-09 is the discounts were there and then they weren't, so the snapback was pretty rapid and the only place where the discounts actually remained relatively wide relative to long-term averages was the muni space. So we found a lot of great values in the muni space for the portfolio.

John Cole Scott: Good. So this question is for Matt. So the question is, have CEFs become more investor friendly presently versus over history?

Matt Leffler: Yeah, I think largely the industry started to mature quite a bit. There's a few things that I can point to since we were young in the industry, and a lot of these other panelists have even more experience than myself, but really through the intervention of more activists, boards are much more shareholder friendly, they're more cognizant of discounts, they're more cognisant of realizing end-value for the investors. The other thing you've seen is you've seen the introduction of term funds that essentially will liquidate at a time in the future, once again kind of mitigating some of the negative attributes of discount dynamics.

Over time, fees have trended down and lower, the IPO process has been more advantageous for the end investor. It used to be kind of difficult and expensive process, and now funds that are IPOing tend to be on much better terms for the end investor. So there's a lot of various trends that I think are all kind of an indication of a maturation process for the closed-end fund industry that's going to lead to better end investments for the investors.

John Cole Scott: Perfect. Our next question is for Ed. Compare how closed-end funds are created, traded, and used in London versus the U.S. and even other countries you talked about already. And what can we learn in the United States from what you've seen work well in London or anywhere else for that matter? I think last I looked there I think five New Zealand listed closed-end funds, a nice little small market for those Kiwis out there. What do you think we actually do well? That would be a great perspective from you, Ed.

Ed Keating: I'd be happy to. We often point to the first closed-end fund was launched out of London by FNC, and that closed-end fund in London was at the time investing in what was at that time the world's biggest emerging market, which was the United States. So 150 years ago, the closed-end fund structure and the beauty of it maintains a lot of what it was set out to do back then, and the U.S. has borrowed quite well that structure in the closed-end fund approach.

How they're created and launched is very similar. Some nuances there where you'll have a slightly higher and sometimes much higher institutional ownership of closed-end funds over in the UK. So it's not unheard of for a local council or a local pension fund in order to gain exposure to say, the emerging markets, they'll own a closed-end fund which invests in emerging markets. That's quite rare here in the U.S. across the board.

You also have far more equity ownerships. Now we're bias there because we focus on the equity side of the closed-end fund and investment trust market, but it's a much larger equity universe of closed-end funds in the UK as compared to here in the U.S. where there's much larger fixed-income focused universe. And I think it's more diverse there too, London has been historically a very open market. So there in London you can find funds that focus on your frontier markets, to small caps, to regional investments across Europe and the emerging markets, listed private equity companies and so forth. So investing in London, you do have a much broader opportunity set.

I would say one thing, and the U.S. is getting better at this, one thing that the U.S. still has some improvement to be had is really on the governance front. If you look at the board makeup of a standard investment trust in the UK, the vast majority of those board members are independent. In the U.S. that's very rare to find, both on closed-end funds or open mutual end funds. If you look at the bios of board members, they generally are related to the fund manager. And that's an issue for us, because ultimately a reminder to all investors, whether it be in closed-end funds or traditional equities, you're the owner of the company. You hired that board with your capital to therefore appoint or hire the underlying manager to manage the assets. And if that board is not looking after the shareholder, if that board is not looking after the owner of the company, well that's a big issue. I think still a lot of that can change for the better here in the U.S., and arguably borrow some more of the UK market.

John Cole Scott: Very good. I know when we talk about closed-end funds, we always talk about that. The managers work the NAV, but that every closed-end fund is an equity, an investment company where you're an equity shareholder and you have to balance both sides of that to be successful as a fund sponsor. Don't forget about the NAV and don't forget about your shareholders, so great point.

Next question is for Doug. Doug, you're telling me that the closed-end fund market, you spoke about it earlier, is inefficient, under researched, and there are always bargains. And so how does that impact both your work with FOF as well as-- folks might not know you do the UIT work for AM, their closed-end fund UITs. How do you maybe do them differently?

Doug Bond: Well, I'd say that the inefficiency is even covered earlier on this panel in terms of someone comes into the market as a market seller of a closed-end fund and creates a dislocation in the price. So we're scoring and evaluating every fund in the U.S. closed-end fund market on a daily basis. We score them on measures that many people are familiar with in terms of yield, relative yield, discount, relative discount, and then the momentum of change of the discount. And as those inefficiencies unfold and show up in prices and relationship to price to net asset value and relative to comparably focused funds, this creates opportunity in the marketplace. So I think it's a day-to-day process of looking at what's going on in the market place, evaluating what's happening in asset classes and relative returns being delivered by various investment managers as stewards of capital for their shareholders that surfaces these inefficiencies.

One of the things that in the last couple years we've seen a revival due to more investor friendly pricing structure of IPO activity in the closed-end fund market and one of the things that's different about the closed-end fund market than other IPOs is generally the underwriters of closed-end fund IPOs do not commit to provide research coverage of the funds after they're launched. That's different than when you have the IPO of Facebook or Google or one of these brand new companies that lists elsewhere on the New York Stock Exchange. So those initial public orphans of closed-end funds as they move through their lifecycle to the end of year one and into the middle of year two, you often see disconnects relative to comparable funds just because of the absence of people following the fund. And those create bargain opportunities for us, both in FOF and in the unit investment trust where we provide the selection.

John Cole Scott: Great, thank you Doug. So Jon, two questions, the first one hopefully is short. How do you approach your open-end fund differently than the way separate accounts? Not having our own active fund, I'm always curious how other closed-end fund people balance those differences for their clients.

Jonathan Browne: Yeah, I think in short, our typical closed-end fund selection process is very similar for both the mutual funds and the separately managed account. However, we utilize our mutual funds to efficiently manage and mitigate any credit or interest rate risk. In the event that investor is comfortable with all of those risks, we can utilize an SMA wrapper without focusing on the hedges. So that's really where the difference is between the two lie for us.

John Cole Scott: Good, the second, we were on the prep call for this. That you think the idea of traditional fixed-income versus alternative fixed-income in the framework of closed-end funds is timely based on things in the press and maybe the mantra of, is a 60/40 portfolio dead? I've read research like you have that the regular version we might agree is, but I think the closed-end fund version isn't. Can you expand on that?

Jonathan Browne: Yeah, so this is a theme that we've been talking about internally here at Robinson for quite some time, for months. And we've all seen recently in the financial media that they've said the 60/40 portfolio is dead. I don't know that we would go that far, but we do acknowledge then this yield starved environment investors are not being properly compensated for the risks that are being taken in their traditional fixed-income portfolios.

I mean, with corporate bonds currently sub 2%, municipal bonds yielding just over a percent, and treasuries somewhere in the half a percent range, it doesn't take much credit stress or interest rate movement to erode a full year or two worth of income at these levels. So because of that, we believe that closed-end funds will see an increase in demand, and quite frankly should play a bigger role in advisors portfolios going forward given they're distributing several hundred basis points more and yield compared to many of the more traditional fixed-income strategies.

For example, municipal closed-end funds are providing on average above a 4% tax-free yield, and taxable funds are easily yielding 7-8% in a lot of cases. This yield differential along with the Fed keeping rates at zero is sort of precisely the environment that drives discounts to premiums in our opinion. It wouldn't surprise us in the least to see another period of time or environment similar to 2010-2013, when both municipal closed-end funds and taxable bond closed-end funds remained at premiums for an extended period of time.

John Cole Scott: It is, I know. And when we talk to investors we always remind, "Let's just pretend your portfolio is a 10 discount and 25% levered. So with $0.90 you control $1.25. Which when the manager takes $1.25 to create the yield, you bought for $0.90." So that yield being higher isn't necessarily riskier generally speaking, it's just the inherent leverage of discounts and the actual leverage of the funds that gives you that higher amount, so great answer.

The next question is for everyone, so two items. It always seems when discussing closed-end funds that leverage use and private or level three assets always come up. And so as you look at a portfolio, how the funds are actually using leverage, whether it's the dollar amount or the style, and the ways they're using their private or less liquid assets, how does that come into your analysis? And we'll start first here with Doug.

Doug Bond: Well, I guess I would say that we're always mindful of the borrowing approach and borrowing philosophy of investment managers, different managers approach it in different ways. Some like to use hedges to cap borrowing costs, others like just the approach of floating their leverage over time. I would say that really within probably the last 10-12 years, the more advantageous approach from the standpoint of the shareholder has been just let the borrow float because we've been through a couple episodes of financial representation, we're in the middle of the second major episode.

As we stated earlier, the Fed is going to signal that it's going to keep rates close to zero for the foreseeable future. And for most closed-end funds, that means that this year they've seen borrowing costs decline by more than 50%, which adds to the earnings power of those taxable and municipal closed-end funds as well as the equity funds that borrow using floating borrowing costs. We haven't really focused as much on the closed-end funds use of less liquid assets. I think that's something that's been talked about by a lot of funds at their launch period, but not as many fund managers actually avail themselves of that feature in the way that they actually manage their portfolios.

John Cole Scott: Great. Matt?

Matt Leffler: Yeah, I think first off, leverage oftentimes has a negative connotation. It doesn't necessarily have to, you just have to be really pragmatic in your thoughts about it. The advantages to leverage tend to accrue slowly over time and the other side of it tends to pop up quickly because assets tend to go down in price a lot quicker in time and they go up more steadily. So just kind of model into your thought process, model into your risk metrics that use of leverage, and know that it's likely to be some dynamic where it's going to be slow, steadier terms for you at times, and then the flip side of that coin can be dramatic. Make sure you know that in the back of your head, make sure that's modelled into your overall processes.

As far as private assets, it's something that essentially I think you can kind of pick your flavor in closed-end funds. There's a vast majority of the universe that doesn't dabble in it in any significant way, but if you're willing to do the research and you're willing to spend the time, it can be a place where those

inefficiencies can be a little bit more pronounced. So pick your lane there is my thought on that. If you want to do the work on it, it can be advantageous and really be something that's additive. If you say, "My time's better spent elsewhere and I really want to know exactly what's in their portfolio," there's plenty of options for that as well.

John Cole Scott: Great. And so next would be Jon.

Jonathan Browne: Yeah, I think they both touched on important points. I think it's important to be aware of the leverage that's being utilized in each individual closed-end fund, especially given what market environment you foresee going forward. In terms of level three assets, we historically haven't trafficked in those names as much. It's sort of our belief that those funds that have a higher allocation to level three assets generally trade at perpetual or deeper discounts. Part of the reason for that is, if they're harder to value type private securities, well if you don't believe in the actually NAV of those underlying securities, then to us it's rational to apply some sort of haircut to the discount to those types of securities. So I agree with what everyone has said here thus far.

John Cole Scott: Good, I'm keeping an eye on the time so I might have to adjust a few questions. So this will be for everyone but I'd like you to share two things. One is kind of the public service announcement you wish every client prospect or every member of the press knew if they reached out to involving closed-end funds. And the second would be, just color that with just your personal thoughts on ownership of the fund by management, by the sponsor, and by board members. And for that, we will start with Doug.

Doug Bond: I would say that, if you can, reinvest your distributions into additional shares of the fund. If you don't, you're not going to experience the potential total return that comes with these episodic periods of market volatility that allow you to accumulate additional shares at those deep discounts. You also probably will have an experience where you'll never really see growth in the price of your closed-end fund, at least in the U.S. market, because most of the funds distribute substantially all of their income and any or all capital gains.

John Cole Scott: Great, and next we'll go with Jon.

Jonathan Browne: Yeah, so there's several topics that repeatedly come up when we're speaking with investors. I think one of the more common ones or the main concerns that we get is simply the level of volatility that comes along with closed-end funds. In general, a large amount of that inherent daily volatility is due to discount movements. So what we like to tell investors is that if you're a long-term investor, it's critically important to block out the daily noise and understand that end game for discounts is if they go to zero. A fund that liquidates or a fund that ultimately converts to an open-end fund is done at NAV and not the current price. So as a long-term investor we continue to sort of pound the table and say, "Purchasing a closed-end fund at a deep discount is an incredible long-term opportunity to own a top rate manager with significant upside potential."

John Cole Scott: Great, and Matt?

Matt Leffler: Yeah, I think my theme is probably going to be similar to some things I've said so far. And that's just know what you own, don't blindly chase dividend yields, realize where the fund is trading relative to its net asset value. Closed-end funds can be very, very good investment vehicles. I'm sometimes disappointed that they have a little bit of a bad reputation at times for certain folks, and I think that's largely because novices sometimes get burnt by not knowing what they own. Not knowing that they're buying a fund at a premium and just following its 52-week performance or something like that, looking blindly at its dividend yield. Just kind of other common little traps. Just educate yourself a little bit and it goes a long way to being able to invest in these really strong underlying assets.

John Cole Scott: And I would say a lot people just look at the market price and sometimes after a decade forget the dividend because it doesn't show up in their cost basis report. I'd say that is one of the goals that

we're working on at AICA, is to maybe improve that one day with custodial help. Ed, maybe if you could speak about your PSA but also tie it back to our conversations on shares by management, board, and the firm.

Ed Keating: Sure. On the PSA front, you're very much, as offered already, is know what you own. The closed-end fund structure can be a beautiful thing but not all closed-end funds are. In addition to that, be patient. If you do your homework and you own a quality manager, you're potentially at a very attractive discount. As we jokingly say, be prepared to look past next Tuesday for investment horizon. Be prepared to own these as an institutional investor three, five, 10 years, and I don't think you'll be disappointed.

Along that, John to your second question there, we are predominantly an institutional owner or an owner of closed-end funds on behalf of pension funds, and sovereign wealth funds, endowments, and foundations around the globe. We think that's important. We get to bring a loud voice to the governance and a loud voice to our engagement strategies. Given our size in many of these closed-end funds, that's a very attractive element of the alpha in which we can drive for our clients.

But as you readily point out, two things are very important. Firstly, you have to know who else is the owner of the fund, another peer of yours or peer of ours. And we always prefer to see the manager themselves and the board of that given closed-end fund as also owners of that specific fund. That way we're all on the same page. The benefits to all of the shareholders also accrued to the manger, him or herself, and to the board themselves as well. We're quite skeptical whenever we find a closed-end fund where the manager, if not the board, does not have ownership of that specific closed-end fund.

John Cole Scott: Good, and Doug right? No, no, I find that it's the same thing, a lot of boards don't own a lot but we don't know how much they actually have in all their investments.

Okay, so the last question and this is like a minute each, I want to combine the last two prepared questions, and so try to keep it to a minute so we can get to the Q&A I see in my box. This is a reminder in the audience, if you have a question, submit it. It comes to me via email, so it takes about a minute to arrive. Please do so now and we'll get to as many questions as we can.

So thinking about that we do have an activism and governance panel this afternoon, but not everyone will be able to attend it, it's a breakout session, not a general session. Give us your perspective on the Boulder Letter if you're willing to, and the 13F filing change. And then also, imagine there's an independent board member in the audience. If they're not actually here today, I'm sure we'll get the summary article to them after. What would you tell independent board members in your opinion? So each of you, let's go first, let's try with Doug first.

Doug Bond: I'll just say to any of the board members, be an owner of the fund with cash and in the size that you and your financial advisor believe is appropriate. But be a stakeholder, I think that will enable you to better equip your responsibilities to your fellow shareholders. No comments on the other stuff.

John Cole Scott: Appreciate that. Matt?

Matt Leffler: Yeah, I think I'd even take it back a step further and I would just encourage more funds to have more independent board members in the first place. I think that's one of the things that sometimes dissuades institutions from getting into the space in the first place, is the construction of the boards themselves. So more independent directors, more people looking out for the end shareholder would do a lot to advance the industry forward. As for the other topic, I think I'm going to follow Doug's lead and stay off touching those two issues.

John Cole Scott: If you want those answers, attend the one o'clock breakout session is what I'm hearing so far, and that's fair. I wanted to put the question out there because I have it. So Jon, next for you.

Jonathan Browne: Yeah, so I think as stated prior, board ownership just creates investor confidence that the funds are going to be managed appropriately and the discounts are going to be managed in the best interest of all the shareholders. So I think a higher ownership, all else being equal, is only a positive for the funds.

John Cole Scott: I'm guessing you're punting the second part too?

Jonathan Browne: Yes.

John Cole Scott: Ed?

Ed Keating: I too shall punt on the first part, but very much echoing the comments. Independent board membership, I think, is critical. Ownership of the specific closed-end fund shares I also believe is critical. I'd also advise any new funds to not forget about us, there's a lot of work that new funds put into the marketing of the new fund, the differentiation of this new fund, and that very may well be. The issue is two and three and four years down the track, they forget about speaking with their clients. They forget about reminding the market of their existence. And as Doug mentioned before, that's often when discounts create themselves and that's when we often get involved.

And lastly I would say don't be shy to change your mandate. At times there are periods of time where you launch a fund that is very new and very differentiated in a given market. Well times change, so don't be closed-minded to slightly or significantly changing your mandate if you believe it still fits investors minds, if you believe it can still drive very attractive alpha kin to your team's talent. So yeah, I'll leave it at that.

John Cole Scott: I know when we track when closed-end funds quote/unquote "die", the biggest reason is mergers and that actual true activists led desks are there but they're not the biggest reason and typically in most years are less than the IPOs of that year. So the repurposing and the consolidating, which has been very strong for about the last five, six years has been a real reason why when we started our data business in 2012. There were 650 closed-end funds, I think, maybe 635. And now we're just at that 700 number with all the non-listed funds and BDCs, with only just sub 500 traditional funds. Even though I'd say there is more manager strategies, there's just less lifted products.

All right, a couple questions have come in, one is from Meg. And this is for everyone to dive into it. We have about 12 minutes because we started a couple minutes late. We'll just be late to the networking session, I guess, and lunch. What are you views on engagement strategies that some closed-end fund investors use that result in the closure of the funds? Money to be made on the ARB but ultimately lower in the investment universe for you to trade in the future. How do you assess whether to vote with an activist or with an asset manager? So they had the same question I kind of did but maybe nicer. Who wants to start? Anyone want to jump in on that question?

Ed Keating: I'm happy to take that because it's a key element of what we too are puzzled with with each opportunity. I think firstly, every situation is different. Every single closed-end fund or such activism has to be treated as an independent investment decision. We perhaps are a bit biased. We like to keep all the closed-end funds open. We don't think shutting a fund down to earn an instant return over a short period of time is largely beneficial to our clients long run. Although if we can work with a given fund and maybe avoid shutting down or avoid liquidation while improving the company and therefore capturing the alpha over a longer period of time, we tend to err on that side of approach. But there are specific times when it makes good sense to agree with management, agree with the board, that it is time to close a fund and liquidate and distribute that capital to investors.

John Cole Scott: Anyone else want to do a counterpoint or an add-on? Doug?

Doug Bond: John, I would just say that for the Cohen & Steers Closed-End Opportunity Fund, which is a fund of funds, we because we're a fund of funds, have to mirror vote our shares. So we just cast all of our votes in proportion into how all of the other shareholders vote. In institutional separate accounts that we manage, we evaluate each situation based upon the facts and the relevant information that is available to us. I would say in general, if a fund has not been a great steward of shareholder capital over a long period of time, and it's selling at an above average discount and it has sold at an above average discount for a long period of time and management hasn't really been responsive to that, that might be the type of situation where we would support the winding down or liquidation of that fund.

The key elements there are protracted period of under performance and inaction by management in terms of addressing persistently wider discounts. In other instances, we may conclude that management's been responsive in the marketplace, they've made adjustments for the investment team, they've righted the ship in terms of relative performance. And in those cases we would tend to vote with having the fund continue and not with the activism.

John Cole Scott: Perfect. Anyone else? Okay, another question, again you can punt this if you need to but it's from a retail investor named Robert. How has Boaz Weinstein influenced the market in your decisions? Anyone wants to chime in, either through his hedge fund you may have heard of or they also have that active ETF CEF. I'm not sure which one it's intended for.

All right, not too surprising but you never know. The last question is from someone, another fund sponsor, and it's for Doug and Ed which have listed funds, though not directly under your purview so I'm guessing you can't answer it. But I'll just make you aware because it's nice to give a voice to the question. How do you balance the discounts of the funds at the organization in the closed-end fund format, and the interests of the manager and interests of the shareholders? Any perspective there? Though I feel I know the answer, I wanted to make sure that he knew the question was asked.

Maybe reach out to the IR at either organization and they can definitely deal with it one-off, is what I'm hearing. With that, we do want to ask all the hard questions. I'm going to refresh the browser. You guys have been amazing, this went so well in my opinion, though I'm a little biased. But thank you for your time, very diverse. We kept it basically on time by adjusting the flow a little bit. Thank you for being good with that. Hopefully you guys can stick around the lunch hour, maybe grab a quick break, get a cup of coffee or a bite, login to Remo. There'll be topic tables and sponsor tables, I'm sure you'll be able to connect with some folks and maybe take some more small group questions if you desire.

And with that, thank you so much for being part of this. I'll remind the audience, the afternoon sessions are by Zoom versus this interface. So go down the agenda and click the track, there's the one o'clock, two o'clock, and three o'clock breakout sessions. Clicking that highlighted area in the grey, you'll be able to see what sessions are available and login directly to witness them in those three tracks. And then please stick around after the conference, we have that post-conference hour. We can grab a snack, a cup of coffee, an adult beverage if you choose, and then connect with people at a sponsor table or at a topic table.

Really, as we built this whole event we knew we could do a webinar with less content, relatively simple, but we wanted it to be more than a webinar, and this level of a platform and these level of speakers I think really gives us that. We've done that for years as an audience member, again that's all I have to say. Finishing about a minute early which is unheard of, so good to all of us, and hopefully see you in the breakout sessions or in the networking sessions.

Recorded on August 13, 2020.

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https://AICalliance.org/

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