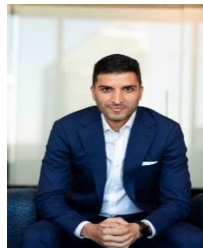
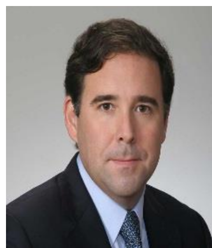
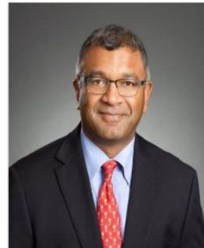
Panelists speak during AICA Summer Summit about Taxable Fixed Income.

Thursday, August 13, 2020

Navid Abghari from Angel Oak Capital Advisors, Larry Holzenthaler from Symphony Asset, Sanjai Bhonsle from StoneCastle Financial Corp., and Gretchen Lam from Octagon were panelists at the AICA Summer Summit held on August 13. The moderator of the panel was Michael Spatacco, of Bancroft Capital. Read the transcript from the discussion below to hear the insight from the panelists.

Michael Spatacco   Navid Abghari   Larry Holzenthaler   Sanjai Bhonsle   Gretchen Lam

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Michael Spatacco: I don't know about everybody else but I'm a bit of a stickler for time, so my clock shows two, it may show different for some of our participants because I know we're scattered about the country. That's part of what makes me so excited about this, is that we have a broad scope from which to draw upon our experience here with this panel.

For anyone who isn't aware of our panel participants, I'll run those down real quick. We have Navid Abghari from Angel Oak Capital Advisors. We have Larry Holzenthaler from Symphony Asset. We have Sanjai Bhonsle, the CEO of StoneCastle Financial Corp. and a partner of ArrowMark Partners, and we have Gretchen Lam who is with Octagon. And so what I'll do for

the participants in the audience and everybody that happens to be watching, I'm going to frame it up and if we have a couple of questions I'm going to throw them out there. We'll go through the questions in our panel conversation and then maybe if anybody has questions that arise from the topics, then we can put them in the little chat box down there. You should have the opportunity to click and open up the chat and throw questions in there, and we'll address those on the backend.

But without further ado, I'm going to kick it off. This is a fixed-income panel, a taxable fixed-income panel, and so as I mentioned, excited to draw upon the experience from a number of different sectors and players within the taxable fixed-income space. I'm director of cash management for Bancroft Capital, so pretty in-tune with rates and what they're doing in comparison to their histories. I wonder what that means for everybody here, so I guess I'll start with Sanjai. In today's yield starved world and everybody looking for some form of return but also trying to remain cognizant of principal perseveration, how do you do that? How do you find yield for your clients and do so without taking on too much undo risk?

Sanjai Bhonsle: Thanks Michael. Absolutely. Even prior to the pandemic, rates were pretty low, and through the pandemic obviously rates have pretty much gone to zero and there is a demand for yield. And the way we have been providing yield for our clients is kind of doing more of the same. Our focus here at StoneCastle Financial is in the banking market, and with our acquisition of the fund back in February, what we were able to do is dovetail our money center banking investments with the community banking investments. The community banking investments, today that market's still pretty tight, like around 5 or 6%. But we were able to enhance our legacy investments there in that fund with our money center alternate capital securities investments that are in the low double-digit type of returns.

That's kind of how we have enhanced the yield for BNX, which is the ticker symbol for StoneCastle Financial. However, our investment philosophy is not to chase yield, it is really capital preservation and then do our work risk first approach. And so we kind of brought those together. And finally, during 1Q and 2Q there was a meaningful amount of dislocation in the market and we were able to invest a meaningful amount of the fund's assets at a pretty meaningful discount thereby enhancing yield. One other way to enhance yield is to buy assets at a discount from forced sellers, so that's kind of how we have navigated through this low-yield environment.

Michael Spatacco: Wonderful. Thank you so much, Sanjai. Would any of the other panelists like to make their point on that before I throw it to the next question? I want to make sure everybody has the opportunity to touch base on all the topics that they would like to.

Larry Holzenthaler: Sure, I can jump in. Just one thought that I have as a follow-up to that. There is clearly this need for current income. Where we sit at Symphony, just by way of background, we're in the corporate credit market or the leverage finance market, basically high-yield corporate debt. Which for us there's really two main areas of high-yield corporate debt, there's high-yield bonds which are fixed-rate by and large, and then you have corporate loans, leveraged loans, senior loans, bank loans. They go by a lot of different names but they're

floating-rate liabilities. And then you have the CLO or structured credit or structured products market that kind of packages loans into various securitizations or tranches.

And one of the things that I would make an observation, if you look as an example between the current yield, in other words the cash on cash yield of high-yield bonds today, versus the cash on cash or the current yield of loans today, there's a pretty big disparity. We run as an example these kind of generic or I should say open-end mutual funds that invest more in high-yield bonds, and then we have the funds that invest more predominantly within the floating rate category. And what we've noticed actually is you see all this money coming into high-yield funds, and at the same time there's actually money coming out of so-called floating rate funds. Ironically I would make the argument, the stuff that those floating rate funds buy is the floating rate debt of Sprint, and Burger King, and American Airlines. And then you have the high-yield funds that basically buy the bonds of the same issuers.

And there clearly is this divergence between demand in high-yield and demand in floating rate. And that's clearly being driven at least in some part by the difference in current income. But what I've been saying for clients is if you look at the more like a yield to maturity concept or what's the IRR going to do, not just the current cash on cash. But if I ride this thing out to par and I haircut it for defaults, etcetera, what's my return potential? You're getting roughly the same return potential out of loans in high-yield. Now you're getting more cash on cash current income today with high-yields, but if I think about if I put a portfolio of loans together and a portfolio of high-yields, I would expect the return potential to be roughly in line.

But loans in addition to being floating rate are typically first lien senior secured, so you could make an argument that loans today from a risk perspective look a lot more like high-yield. You have more loan heavy capital structures, people talk about covenants. I wouldn't necessarily make that argument, but you have more aggressive kind of risk taking going on in loans. But having said that, loans are still a safer asset class by in large than the high-yield index. So you're getting roughly the same return potential with something that's at least incrementally lower risk. But I have to kind of look beyond the current income and look at more holistically the total return.

Now having said that, I say that to certain clients and they go, "Hey, that's great Larry. But our clients really actually need the coupon coming every month, so we still prefer high-yield." But I always like to point out the differences in terms of yield to maturity concept and accretion to par, and just the cash on cash current yield, because there's some big differences in those mechanics today.

Michael Spatacco: Thank you, Larry. You actually touched on something that dovetails into the next conversation, and that is quality of assets and what the makeup of these funds looks like to the investor and what helps to set it apart. So I'm going to throw this one to Navid, I know that you guys have a speciality in the community bank debt space and I believe that we have some other participants who will likely want to ring in on this one as well because we have some synergies there. But what do you think sets the community bank space apart inside of fixed-income? Because I know you brought a few funds over the last two years and the story makes

sense to me. You're going out trying to find valuable assets that other components of the market don't have the same valuation metric. How do you make it work for you, Navid?

Navid Abghari: Yeah, and what I would say is clearly you've seen many closed-end funds come to market that focus on fixed-income. I think that really denotes two key concepts. One is of income generation, but secondly to your point, is of risk minimization. Oftentimes people moved to the fixed-income markets to try to limit some downside exposure and I think that's one thing that I've think that we've seen at least in many of our discussions with potential investors in the space, that they're very focused on risk minimization. And as we look at the market today, I think it's very important to consider the significant change in where leverage is concentrated today.

There's really been a sea change with much of the leverage that is historically set on consumer balance sheets now moving to corporate and public sector balance sheets. Ultimately as the market grapples with the current economic environment, we feel that many corporates that use the easy money post-crisis period to re-lever their balance sheets will now be faced with the reality of potential deleveraging. I think that's a key point to be made, is the potential downside risk associated with various investments. And it's important to note however that banks are really the only sector within corporate credit to delever, which really is the key tenant to attractiveness of the space that we find very compelling.

Now if you look at REITs for example today, they average close to 40% more equity than they did in 2007, and that's obviously the liability side of the balance sheet, but also the asset side of the balance sheet has significantly changed really due to regulation in terms of the types of loans and the types of programs that these banks are involved in and essentially have de-risk their balance sheet. So you see both sides of the balance sheet stronger than it's been in our lifetimes and we think that that really creates the fundamental profile that is going to be extremely resilient and extremely stable through moments of uncertainty. I think that's a key focus for investors in today's market and where we're finding value.

Michael Spatacco: Thank you very much. Gretchen, I would like to throw it to you. It was just touched on, resiliency, areas of the market that have proven buoyant in some of the more difficult times. And I know that you have somewhat of a structured product focus and that's a market that has some questions going forward, but also hasn't seen a gigantic correction through the first half of this year as one might expect based on conditions. So how do you see yourself and Octagon positioning in the fixed-income market as it pertains to your sectors?

Gretchen Lam: Sure, absolutely. I think I would underscore some comments that have been made previously, and I couldn't agree more that as we think about how to construct portfolios and how to manage risk, we're really balancing three things. It's current income, preservation of investments, preservation of notional value, and convexity or pull to par opportunity.

Just to maybe step back, XFLT, which is the fund that we manage as a sub manager, it's really a hybrid of a loan fund and a structured product fund. We have roughly equal amounts of both and we think that's really important because it allows us to have more tools in our tool chest to balance those three things. So the loans, as Larry mentioned, they are generating very healthy

current income, mid-single digits kind of current income, but with a history of exhibiting preservation of value, preservation of par over time, and that's really important.

And then we layer with that, investments in CLO tranches, both junior debt tranches as well as CLO equity tranches. Which in the case of CLO debt tends to exhibit or has historically exhibited much higher volatility versus loans by virtue of just the inherent leverage in the CLO structure. But from the standpoint of actual defaults and recoveries, has a history that really looks better on par with investment grade assets historically. And at the same time, because of that price volatility, earns a higher current income and a higher total return in most cases.

And so having the ability to invest both in loans as well as CLO debt and equity allows us to put a toggle on the margin between those two and take advantage of periods where maybe loans have traded off five points but CLO junior mezzanine tranches have traded off 10 or 15 or even more points. In CLO equity, certainly the upside is potentially greater and the downside is greater just given the residual nature of that security. And so we really look to CLO equity in the fund to provide a high level of current income and cash on cash distributions, while at the same time investing in a way that we are focused on who we think are the best CLO managers and who we have confidence or who we expect will manage and limit the level of defaults and credit impairments that as an equity investor we bear the first loss on.

Michael Spatacco: Thank you very much. You gave me a perfect natural transition point here, so I appreciate that. You talked about the optionality and how you appreciate having the ability to switch back and forth between some going into the CLO sleeve, some loans, and some more of the equity components. That's something that I've seen a consistency in the new offering market, is dynamic components to new funds. And so I'll throw it out to the panel at large, but I'm sure Navid, I'm sure you have an opinion on this specifically. How much do you appreciate having that optionality in the management of your funds? What kind of lifeline is that for you as you develop a forward strategy for one of these funds?

Navid Abghari: Yeah, and actually that's a key point to be made. We launched a closed-end fund the middle of last year, ticker FINS, which was a financial focused closed-end fund, it would allocate about 80% of the assets to the debt of banks. We just recently launched another closed-end fund, ticker DYFN, in fact it has the term dynamic in the fund name, really to take advantage of the exact point that you made. And it's really loosened some of those investment restrictions on this new closed-end fund, to have that optionality and ability to toggle amongst various investment opportunities while still saying in the financial services space. Which we think structurally there's a lot of tailwinds in that space, there's a lot of regulation that limits the potential downside risk exposures. And it's also a lesser understood part of the market, which again allows us to extract value.

As you look at the closed-end fund space, especially the recent funds that have come to market, many of them have very long investment periods. Our most recent one has a 15-year term and it's hard to envision what the markets will look like for the entirety of that 15 year period. Having the flexibility as a manager to be able to identify the most attractive risk/return opportunities in a broad spectrum really allows us to provide more value to our investors and I think ultimately will be a huge benefit to our fund.

So in our most recent fund, again ticker DYFN, we also look at non-bank financials, we're very large in the insurance space, but also involved in asset managers, REITs, BDCs, speciality finance, really the full spectrum of financial services. And I think especially as we went through this COVID crisis, you saw the performance in those various sectors become very different. Some areas such as REITs and the preferred market showed significant distress, and that could be a tactical opportunity that is very appealing if risk managed properly and timed correctly. And so I think that's the key point in terms of optionality in the funds that we look at, as it is such a long investment period and having that ability is a huge benefit to our investors.

Michael Spatacco: Thank you very much. My next question I'm going to throw to Sanjai here because Navid touched on it. It's great to have the optionality, it's great to have a longer timeframe, and what we've seen is some of the assets correlations have been different than expected in the COVID world, in an election year. How do you see banking, and where do you see the opportunities there? What do you see the recovery looking like in specifically the banking space, because I know you have a focus there?

Sanjai Bhonsle: Sure. I think Navid alluded to this in his comment. Unlike what happened to banks during the last national crisis, or because of what happened to banks during the last financial crisis, banks became highly regulated post-2008, 2009. So their balance sheets were fairly strong coming into the crisis due to the pandemic. For example, our portfolio of banks are investment grade generally speaking, on average they're rated investment grade. And the tier one capital is in excess of 13.5-14%. So extremely well capitalized banks that coming into the pandemic are able to take increased allowances that we probably are going to see here in the near-term.

However, also the lending the practices changed quite a bit, and if you think about it, these banks are not making 100% loan to value type of loans that we saw pre-crisis, the financial crisis, and now you're looking at a 50-60% type of LTVs. And like we had mentioned in our previous earnings call, the PPP income has been a meaningful benefit to a lot of these banks because they're able to offset the increased allowances, or partially offset the increased allowances by the use of this income. So we generally feel pretty good about the banks going through this and we're cautiously optimistic about the second half all things constant.

Michael Spatacco: Thank you very much. Larry, I'm going to throw one to you. What opportunities do you see in the forward market to differentiate yourself as a purveyor and somebody's who's managing portfolio on a consistent basis? How do you set yourself apart from your competition? That's one of the things that as we co-manage these opportunities in the closed-end fund space, we go out to institutional clients and put them in touch with some of the investment philosophies that are coming forward. If it doesn't seem different enough from its predecessors then people have trouble finding the same level of comfort with it, so how do you offer that kind of differentiation from your peer group, Larry?

Larry Holzenthaler: I think there's a few kind of levels. At Symphony our bread and butter business is basically leveraged credit, but we sit within the Nuveen organization which is pretty well-known within the packaging of closed-end funds across various asset classes, although the

stuff that we do tends to work very well in a permanent capital format. So I think at the fund level, which is really not us, it's really our parent company Nuveen doing this, they've I think been pretty creative in a number of different ways at the wrapper level.

First and foremost is some of these target term funds that I know Nuveen had a part in, but others have clearly used this structure as well. And I know this is kind of a later question, but if it was March 23rd, then you're kind of sitting there going, "I feel like I should be buying something." For me, being a credit analyst I understand the closed-end structure very well, the target term wrapper, I wish I bought more, I wish I just bought the S&P 500 but I didn't have the guts. I looked at this target terms and I went, "Okay, if I assume the worst in terms of a default loss expectation cumulatively over the next five years and I discount that into the price, and I'm buying a loan at 75 cents on the dollar and the fund itself is at a 20% discount," the term I was using a lot in those days was the margin of safety. Which compliance people don't like you to say, but basically what that means is, how much negativity is priced in?

In other words, people would say back in March 23rd, "But aren't you worried about the amount of uncertainty?" And you would say, "Yes. I don't know what's going to happen, but I do know the cumulative default rate in loans is not going to go to 60%. So if it's anything less than 30, default losses are X, Y, Z, I still should make money." Now I don't know how much, but I'm buying at such a ridiculous price that that structural feature versus kind of a perpetual fund, I think is very unique and different at the fund level.

The other thing too is the new kind of underwriting structure that these firms are using, whereby the investor on day one doesn't necessarily buy-in at a significant discount to NAV, some of the structuring fees and underwriting costs are absorbed in a different way. I think at the investment level, one of the things that we've been trying to come up with both at the Symphony level as well as at the Nuveen level, trying to package investments thoughtfully that we can deliver to retail investors or institutional investors in a 40 Act wrapper. CLOs, and fair disclosure, I'm an investor in XFLT, funds like that are delivering. It's an access trade that you're never going to be able to buy Octagon's CLO capabilities directly unless you have significant size. So the ability to participate, whether it's in that type of a structure or even our funds have very, very small CLO buckets built into them.

And at the broader organization, which again I'll give a picture of our parent company a little bit, not necessarily Symphony but Nuveen. Nuveen has a number of different asset classes that they really excel in. Middle market lending, they have another affiliate, not us but another affiliate called Churchill that does middle market lending, very illiquid, so you can't utilize a mutual fund so a closed-end fund wrapper works very well. Real estate assets, same thing.

So one of the things that Nuveen and their parent company TIA have, is they have this general account, which it's like a float of an insurance company. So what they've done, the cool thing about the float of an insurance company or the general account at TIA is you can take a lot of liquidity risk and earn that liquidity premium. Do a lot of alternative things that unfortunately it's tricky to deliver in a number of different wrappers, but the closed-end fund wrapper, I'm sure all the panelists on this board navigate within asset classes where the closed-end fund wrapper works really well.

And I think historically you go back 10 years ago, we were packing things in a closed-end fund that you could have put in an open-end fund, you could have put it anywhere, we liked the idea that it was permanent capital. But there's an investment reason for doing that too, it's not just to give the manager permanent capital but to deliver something to the investor. Back in March when all these open-end funds are getting outflows and they're forced sellers, closed-end funds had to delever but we were in a much better position in a closed-end wrapper March 23rd than if I'm running a $12 billion open-end fund or an ETF. It can get trickier.

So I think the wrapper itself, there has been some ways to really differentiate that. I can't tell you how many conversations I've had int he last couple of years where someone says, "We don't buy closed-end funds on an IPO." And you say, "Just hear me out, give me 30 seconds." And after 30 seconds they go, "Actually, tell me more. You've caught my attention." And so I think people are doing things both at the fund level and within the investment pools themselves that very sophisticated people who historically just did not buy closed-end funds in the IPO are really looking at these wrappers as just better ways to deliver these asset classes.

Michael Spatacco: That's a great point, Larry. And I've always said that closed-end funds are like mutual funds' less popular older brother. They've been around before mutual funds and once the mutual funds companies realized, "Hey wait a minute. We don't have to start a whole new fund and go through the regulatory hurdle, we can just continue to print," open-end funds came into favor. But you nailed it there with the liquidity and what happens when you get a run and forced redemptions, and especially with algorithmic trading that can kind of become exponential as it trips its own triggers and sends off more sales down the road.

And so that brings me to what will be my last question, it's really just out of morbid curiosity, and since I have a couple of portfolio managers here I might as well figure out how they're feeling about it. What is, if at all, the thought process behind discount management for a portfolio manager? And I know that I'm asking it of different people at different stages of integration within the funds and so please feel free to opt in or out at whatever level you feel comfortable. But I've always wondered if as a purveyor of a fund, am I trying to manage to a discount so that I'm more attractive to a new investor to come in buy in the secondary? Or am I trying to manage to a premium so that I can engender that credibility that you're talking about in the new issue market, and go back and say, "Hey, some of my funds, all of my funds, a standout component of my funds from its peer group trade at premium. You might want to allocate back into me." What is the prevailing through process here on closed-end fund and discount management? Just for order of operations, I'll throw it to you Gretchen because I feel like it's been awhile since I bugged you for something, and then we can kick it around after that.

Gretchen Lam: For sure. I would say to answer your last question first, we're certainly not managing the fund with an eye towards a discount or a premium. We certainly recognize that at a different points in time and in different market environments, XFLT will be trading at either a discount or a premium. I think what we endeavor to do as a manager is to provide as much transparency as is physically possible so that the market has a clear a picture of the value of those assets and the income generating properties of the underlying assets in the fund.

In late March when frankly every cell in my being was saying, "Get in the bunker," we were out having webinars, talking to our investors at large, communicating what we thought. Clearly there was a lot that we didn't know about the future and a lot of uncertainty about the credit markets and the world in general. But I think that certainly it was helpful to our investors, it was helpful to the broader community to just be as transparent as possible.

Along those same lines, our NAV is struck daily and is struck not by us but by a third-party. That again really speaks to our desire and attempt to be as transparent as possible. Loans are a relatively liquid asset class in terms of how frequently they trade. CLO debt and CLO equity, less so. There are just fewer observable market transactions by which to extract value and a determination of value. And while we acknowledge that, we really do our best structurally within the fund to let a third-party do the estimation as opposed to incorporating an internal mark to model NAV calculation.

Michael Spatacco: So you're more concerned with the performance of the asset and delivering on whatever investment thesis was put forward to the investors, and then whatever exterior market machinations may result in a premium or discount, you just try and capitalize the best you can for your strategy.

Gretchen Lam: Yeah, and I think a lot of the disconnect between NAV and price is investors making a call on whether the marks are accurate or not, as opposed to a more fundamental view on the assets. And so to the extent that we can provide as much transparency as frequently as possible, I think that's positive for investors.

Michael Spatacco: Great, thank you very much. Anybody else want to jump in?

Navid Abghari: Yeah, I can add a few more comments as well. Gretchen's point, we agree, the ability to have a transparent and timely NAV is very important, and I think that is something to the benefit of investors and should result a lower discount potentially to NAV. As mentioned, as a portfolio manager ultimately you're tasked with the ability of going out with the investment thesis that you had and really capitalizing on that. I think the performance of the NAV will ultimately dictate whether there is a discount or premium, and consistency of NAV I think is a key point to be made there.

I wouldn't say that all closed-end funds are created equal. I think looking at the actual portfolio composition and having a view on that should also dictate whether a fund trades at a discount or premium. To give you an example, FINS, our closed-end funds that we launched last year is a very high-quality portfolio. In fact it's investment grade, over 70% of the fund has assets that are rated investment grade by external rating agency, and the remainder which is about 28% is unrated per our own internal proprietary credit model is investment grade. And in fact our unrated portfolio has stronger credit metrics than our rated portfolio, so we view our entire portfolio as investment grade in nature.

Now the discount that an investment grade portfolio should dictate relative to a high-yield portfolio or a loan portfolio should be very different. Our portfolio is also 100% securities, these are [inaudible] assets, these are things that trade electronically on DTC. That also should come

into investors decision making process, and all that could give some comfort to investors when they're looking at certain funds relative to others. But ultimately being able to achieve your stated investment objective, and ours is to have a high-quality portfolio with high income and low overall volatility and duration, is ultimately what's going to dictate the performance relative to NAV.

Sanjai Bhonsle: I'd echo a lot of what Gretchen said. As a manager you just kind of follow the investment criteria of the fund. You buy assets that are from a risk adjusted basis the most optimal, and over time as a manager you try to grow the yield of the fund and thus grow the dividend over time. But along the way making sure you don't take your eye off the ball in terms of capital preservation and making good investments. And the market will reward you for it as they see fit.

Michael Spatacco: Larry, you got anything on this one?

Larry Holzenthaler: Yeah, I've got a couple, I'll add my two cents. You're right, we don't necessarily manage to a discount. There's clearly some correlation specifically within certain peer groups like the loan peer group, there's some correlation between dividend rate and discount. The higher the dividend rate, typically the lower the discount all else equal, which is a bit of a tricky one since never is anything as perfect apple to apple. But having said that, we're not going to load up on something like dept or in possession loans that throw off a very high cash on cash that we don't think they're going to give us optimal or total return or risk return characteristics.

And then at the fund level, again I'll mention the target terms again because I think they really have worked. For those for you who aren't familiar with a target term, these funds typically at IPO have a three to five year, what I'll call reinvestment period, although that's more of a CLO term. But it's kind of a finite life, and all of the assets within the fund mature before the maturity date of the fund itself.

So what that does is it mitigates some of the risk that you're either liquidating assets at a suboptimal time in order to return NAV to investors, and it also helps the price in theory track closer to the NAV. And really the only time we saw these things trade at a meaningful discount to NAV was during that March timeframe, and they snapped back really quickly, so that seems to be something that's working. And in fact what you're doing is you're creating a more finite set of variables. All the of the debt matures before 2025, the fund itself matures three or six months thereafter. So all I really need to figure out is my default loss rate, and that should correlate pretty closely to what my total return is plus or minus the discounts obviously itself.

And the other thing I'll mention happens to be a fund that we manage, our parent company is actually the advisor, we're the subadvisor, but what they've been doing is we have a large floating rate closed-end fund, it's the largest floating rate closed-end fund in the market. And what we had noticed, this is counter-intuitive, is because it had a larger float, it had a larger market cap, it tended to trade at just a deeper discount. It was kind of sloppier to its NAV than the other funds and so I was surprised when I heard this, our parent company Nuveen underwent what is in effect a return of capital strategy. Where what they're doing is they're basically

shrinking the net asset value of the fund so that your dividend rate is partly the economic cashflow coming off the fund, but part of it is basically a return of capital.

So the idea was to return 20% of the net assets of the fund over in three years. And when I heard that I said, "I never heard of a company that has permanent capital that doesn't need to give it back that voluntarily says, Hey, we don't need to give you your money back but we'll give you 20% of your money back.' It feels like that's working. I don't think that's a concept that people want to adopt broadly. I think one of the things that's great about a BDC and a closed-end fund is it's a much more definable permanent capital mix. But having said that, that's something that's not quite open-ending a fund, which is a more drastic step. But doing things that is in the best interest of shareholders to try to mitigate that discount, I think is something that fund companies can help their franchise by in effect giving assets back somewhere in order to make your investors understand that you have their best interests in mind. And hopefully that helps holistically and it helps your clients and it becomes a win-win when all is said and done.

Michael Spatacco: That was four better answers than I was expecting, so thank you everybody for indulging my curiosities there. As it comes to curiosities I feel like we're getting to the point where Q&A would make sense and we have a couple of participants on here. So if you are not familiar, right about here on your screen there's going to be the ability for you to throw something into the chat there.

Robert asked, please discuss return of capital. Please discuss ROC. Obviously Larry, that was kind of what you were just touching on, is that sometimes, especially in my experience, when portfolios are getting into more esoteric assets, they may not be able to deeply 100% of capital day one. And so it's difficult to generate the necessary yields to kick off a dividend at six or seven, or whatever it is that's engendering interest in the market, and so some providers will return capital, some wont. So if you want to just close up your thought on that for Robert, I would appreciate it.

Larry Holzenthaler: Return of capital tends to have a negative context I would say broadly speaking. What I'll do is I'll use a dollar amount just to give you an example. Imagine if you had a $10 fund, and on that $10 investment it was generating a dollar of income in actual coupon year. If you set the distribution rate at a dollar a year, what you're doing is you're just paying out the income being generated by the investment. Now what a fund manager or fund advisor could do is they could say, "we're actually going to give you back two dollars a year. One dollar is coming from the income that the investment is generating, what that other dollar is, is it's basically - I'll be flippant in the way I say it - it's me giving you your money back." So I need to look at that and say, "Okay, the investment's not really generating two dollars, it's generating one."

So what Nuveen is doing, I get this question probably every week, we have five closed-end funds we run for Nuveen, and I get someone who-- people are busy and they call me and say, "Hey, I see you have five bonds, four of them are earning 8% a year and you have one fund that's earning 17% a year so I've been buying the one earning 17." And when I say, "Well actually, those five funds all buy the same stuff, so they're all roughly earning the same yield. So that incremental

7% you're getting is actually coming in the return of your capital in an effort to make the fund smaller." And the reason I say it typically has a negative context is it can confuse people.

People might say, "I bought your fund and it's generating 8% a year, but how much of that 8% am I really earning?" Because anyone can just give you your own money back. I could give you whatever you want. "Hey, what do you want?" "I want 50%." Well unfortunately you're going to have no money in two years because I'm just giving you half your money back. So understanding what a percentage of the check I'm getting in the mail every month is coming from actually earned interest or current income, and how much of it is coming from you just giving me my money back. So that return of capital in this context, this is not the hidden secret, actually this is the first thing I say is, "Unfortunately or just so you know, the significant portion of your dividend every month is coming from a return of capital." So it's very important to know what percentage of your dividend rate you're actually earning.

Michael Spatacco: Thank you very much. Anyone else on return of capital? No? Okay. If there are any more questions, now would be the time to put them in there. I feel like we have covered everything that I wanted to cover, hopefully it satisfies the educational demands and the requirements of everybody's that's tuned in.

I appreciate everybody's time. Thank you to Larry, Sanjai, Gretchen, Navid, thank you to everybody for tuning in and giving us 45-ish minutes of your time here. Without further ado, I guess we'll shut it down. Thank you very much to everybody for your time, and thanks to John Cole Scott and the AICA for putting this all on.

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