

Closed-End Funds Offer Equity Investment Opportunities Despite Increased Volatility

By Jennifer Banzaca

Although indiscriminate volatility has caused valuations to decline significantly since March, managers have been able to take advantage of lower prices to cheaply buy some company equities.

During the Equity Access Through Closed-End Funds panel at the Active Investment Company Alliance's (AICAlliance.org)'s Summer Summit on August 13th, Peter Maletis, Vice President of Gold and Precious Metals Research at Merk Investments, said, in his case, the volatility created opportunity.

"Being an active manager with an understanding of the space, I think you were in a position to take advantage of the market. So we were buying things and taking advantage of the volatility, and looking for laggards that hadn't performed the way that they should," Maletis said.

Added Peter Vanderlee, Managing Director and Portfolio Manager at ClearBridge Investment, "From an investment perspective, I do like volatility because it gives me price points that don't ordinarily come about that often."

Vanderlee explained that in the past he has missed out on opportunities simply because the

prices were "too cheap."

"I wanted the stock to be cheaper to establish position, it never got there and then it ran away from me, and that's a miss. What volatility tends to do, it does give you that opportunity to pounce, and as such I actually don't mind this amount of volatility to come around every so often, I wouldn't want to have that volatility on a daily basis. But every so often having a bite at the apple, at more interesting prices, at lower prices, is a welcome phenomenon," Vanderlee added.

However, the volatile markets did cause managers to make some changes in their investment strategy.

Martin Connaghan, Investment Director in the Global Equity Team at Aberdeen Standard Investments said that because the market downturn happened in the middle of European dividend season his firm took a step back.

"Initially, just when we would normally be very active, we did nothing. Now we were quite fortunate in that a number of companies had paid at that point their dividend for the year, but we had to wait for the volatility to die down," Connaghan stated.

"We've probably been more active in the latter part of the year and we continue to do that. Where a good portion of income is typically earned by this point in the year, we've just had to adjust the timescales a little bit."

Maletis explained that his fund had been in transition since April of 2019, with the fund moving down in market cap almost immediately. That was shown to be the right call when gold prices started rising at the end of last year.

"We participated in numerous fundraisings and moved down in market cap faster than I thought we would, but we knew it was the right decision in the market we are in," Matelis said.

Once volatility abated, Connaghan said Aberdeen was able to pursue opportunities again and that having a global investment mandate has provided more opportunities.

"Having the option to be global and not be constrained by lines on a map has been priceless right now," Connaghan added.

Vanderlee said that the indiscriminate selling that started in March gave his firm opportunity to buy some great quality companies cheap.

"These companies have very strong balance sheets, are well managed, and will not only survive this pandemic but they'll thrive. We were able to buy them on the cheap. We were able to upgrade quality pretty much for free. So in the process, we haven't necessarily changed our investment process, but we certainly were able to have some upgrade there in the portfolio that otherwise would have been very expensive to implement," Vanderlee explained.

While the volatility has provided investment opportunities and markets have rebounded in some areas, there is still a question of when

things will return to normal.

"I think the US presidential election has a number of investors on the sideline which has subdued volumes overall. I would like to think that the combination of a completed election and further stimulus would see an increase in market volumes," Maletis said.

Connaghan said "normal" is a matter of perspective.

"If you mean getting back to where we were before Covid, I think we're already back there and above in some areas. We have seen areas such as technology do very well recently. Some markets will require quite a bit of recovery to get back to anything close to normal, such as oil and gas, hospitality and airlines. However, we would anticipate some return to normality at some point in the next year."

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