



## Closed-End Fund 2.0 Is A Bigger Deal Than The ETF Revolution

Friday, November 12, 2021

Chuck Jaffe, in this episode of The NAVigator podcast interviewed Michael Spatacco, director at Bancroft Capital. Read the Q & A below as Michael says that the latest evolution in closed-end funds will have more impact on the closed-end fund business, and the evolution of funds and how they are sold, than exchange-traded funds had on the traditional mutual fund industry. In a



wide-ranging discussion on the state of the closed-end fund business, Spatacco says that the ETF evolution mostly changed the way funds are built, with the underlying investments remaining mostly the same; the changes in the closed-end fund business have dramatically expanded new offerings and who will participate in new funds, which is leading to the development of more new and interesting closed-end funds.

Michael Spatacco

The podcast can be found on AICA's website by clicking here: <https://aicalliance.org/alliance-content/pod-cast/>

**CHUCK JAFFE:** Michael Spatacco, director at Bancroft Capital is here and we're chatting about developments in closed-end funds right now on The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator's brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry. From users and investors to fund sponsors and

creators, if you're looking for excellence beyond indexing, The NAVigator's going to point you in the right direction. And today, well, it's pointing us in the direction of Michael Spatacco, director at Bancroft Capital, Bancroft4Vets.com. We are actually of course airing this the week of Veterans Day, a little talk about that as well, but if you want to learn more it's Bancroft4Vets.com. If you want to learn about closed-end fund investing generally, AICAlliance.org, the website for the Active Investment Company Alliance. Michael Spatacco, welcome back to The NAVigator.

**MICHAEL SPATACCO:** Thanks for having me on again, Chuck.

**CHUCK JAFFE:** Michael, the closed-end fund market has been kind of interesting. Because people are always saying, "Oh, I want to find things that maybe aren't quite as correlated to the market." Well, closed-end funds have not been entirely correlated with the rest of the stock market, have they?

**MICHAEL SPATACCO:** No, they haven't, and I think that speaks to the diversity that you see within the sector of closed-end funds itself. Obviously you have asset class diversification, timeline diversification, and any number of different strategies within each of those components. And so you see things that have a tendency to have some correlation to the market, sure, but also occasionally a negative correlation probably due to the fixed-income nature of most of the recent closed-end funds. There has been some equity funds, but there has been a focus on fixed income and I believe it touches on something you just mentioned in that investors are seeking. Investors are seeking lots of things and yield is one of them, and closed-end funds have been a vehicle for that yield over the last couple of years.

**CHUCK JAFFE:** The closed-end fund market itself, it is developing and changing. What are the things that have you interested in talking right now?

**MICHAEL SPATACCO:** Obviously the changes that have come down into CEF 2.0 have been huge, kind of old news at this point. But the differentials in timelines, starting to see some of the term dates on the backend have different year ranges. We had seen 12, 12 and 15, seen a few 10's and 11's, and I believe we actually saw a 14 earlier this year as well. So we're starting to see some of the fund families play with the backend of the funds, and the portfolio management team had always insinuated that the basis of that was to drive away the possibility of long-term NAV disconnection. If I have some sort of hard stop at year 12, well then I don't have to worry about long-term treasuries and their impact because everything

beyond 12 years I should be able to get NAV, and if the investment strategy's sound the NAV should grow. So you see fund families out there getting creative and trying to put together solutions that work for a broad base of investors. You can't sell to the same people every single month, every single quarter, you need to make sure that you have diversified vehicles to hit all the different boxes.

**CHUCK JAFFE:** Speaking of hitting the different boxes and we talk about the developments, as you point out, closed-end fund 2.0 which is kind of the changes in structure that we're talking about, is not new news. But as you build portfolios using closed-end funds, are you trying to mix and match traditional with newfangled? Do you only want to go towards the newfangled? Is this change to you going to be as significant as traditional funds to ETFs have been?

**MICHAEL SPATACCO:** I would say more significant, just because in my worldview traditional mutual funds and ETFs are a significantly similar vehicle. They operate differently from an operational mechanics standpoint, but at the end of the day you're going to put them in the same place of the portfolio. And you will do the same with closed-end funds, but the big difference for CEF 2.0 was the offering structure on the frontend. And so once it gets up and running and into the secondary market, I don't know that our clients and portfolio managers are going to be so careful about whether it's a CEF 1.0 or 2.0. The differential there is at the initial offering where previously investors went, "I'm not paying \$20 for a \$19 receipt." That's not a good value prop and it turned off institutional investors entirely. Now since the fund families, as I said, are getting a bit smarter and trying to offer a more saleable product, they cover those fees and you see institutional investors who say, "Okay, if I like that investment strategy, and I want to buy it in the secondary market and I want to buy half a million shares, I'm going to move the market." I'm going to start pushing the price of that security up because the value of the demand I'm putting into the funnel is going to change the equilibrium. But if I buy it at IPO, I can get it all at 20 bucks and not have to worry about paying \$20, \$20.05, \$20.07 and watching the security move up because of my own action. So we have seen, and it's been represented in the base demand from our clients, a participation on closed-end fund IPOs that would have been unimaginable in the previous structure.

**CHUCK JAFFE:** Speaking of closed-end fund IPOs and new and different issues, I know that Nuveen's got something that you're interested in.

**MICHAEL SPATACCO:** Yeah, there's a couple things that are coming towards the end of this year, and as I said, there's strategies out there that are obviously trying to hit client needs. We work really hard here at Bancroft to make sure that whatever we develop pushes towards client needs, and it seems like there's lots of irons in the fire. Nuveen has filed to put something to market later this year that should be really interesting along those lines.

**CHUCK JAFFE:** And you talked about your clients. Your clients skew obviously towards veterans, that's what you're focused on. It is the week of Veterans Day, let's move it away from closed-end funds for a moment and talk about you at Bancroft Capital but also your clients.

**MICHAEL SPATACCO:** Absolutely. So Bancroft Capital is a service disabled veteran-owned broker-dealer, and with the profits of our business we fund a training program for service disabled veterans. So our clients are institutional investors, government linked portfolio managers, corporate treasuries, but what we believe sets us apart and what they have told us what they appreciate about what we do is we're true and authentic to our mission. We bring in veterans, and again it's Veterans Day today when we're recording and I never served, so thank you to all the veterans out there and everybody who has laid it on the line for this country in whatever way. I am eternally grateful, as well as are all of my coworkers at Bancroft, and so it gives me great pride to do what we do because those are the people that make it all possible. And without them none of this happens, you and I don't get to have this conversation and I appreciate it. We donate 100% of our net profits from trading today on Veterans Day to the Travis Manion Foundation who is a great partner for us and somebody that we're proud to work with. But it's less our client base and more in the core of our organizational DNA, the dedication to veterans. And you know what? I have a couple guys that work here who have come through the program, we couldn't be luckier to have them. It's an honor and a pleasure.

**CHUCK JAFFE:** You talk about changes at Bancroft. We'll use the limited time we have left to discuss the fact that you guys are doing some things outside of the closed-end fund space. Bancroft, by the way, just named one of the fastest growing privately held companies in the Philadelphia area, so congratulations to that.

**MICHAEL SPATACCO:** Thank you.

**CHUCK JAFFE:** But part of your growth is you're doing some new money market funds.

**MICHAEL SPATACCO:** Yeah, you know what, we were really excited we were named into the top 100 for the Philadelphia 100 fastest growing companies. And then our CEO went to the awards ceremony and legend has it he was waiting for his name to get called like a draft pick who's fallen in the green room, and suddenly we were number one. So we were really excited and proud of that, it's the product of a lot of hard work and we don't get that win without bringing real business wins. And one of the biggest for me and for Bancroft recently is partnerships with State Street and BlackRock on money market funds. Five money market funds with State Street, government, treasury, treasury plus, prime, and ESG. And then with BlackRock there's a LEAF, a liquid environmentally aware fund and a liquid federal trust fund. So seven different funds across two of the world's premier asset managers, and it's a white label partnership with Bancroft Capital. So any organizations or entities that appreciate what we do, like the sound of what we do, have access to world leaders and the additional layer of service that we provide.

**CHUCK JAFFE:** I look forward to seeing how it turns out and I look forward to chatting with you again. Thanks so much for joining me.

**MICHAEL SPATACCO:** Thank you, Chuck.

**CHUCK JAFFE:** The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. That's me, and you can learn about my show on your favorite podcast app or at MoneyLifeShow.com. To learn more about closed-end funds, interval funds, and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest, Michael Spatacco, director at Bancroft Capital. Learn more online at Bancroft4Vets.com, on Twitter @Bancroft4Vets. The NAVigator podcast is new every Friday, ensure you don't miss anything by subscribing via favorite app. And if you like us, please leave a review, they really do help. Until next week, happy investing everybody.

*Recorded on November 11th, 2021*

To request a particular topic for The NAVigator podcast please send an email to: [TheNAVigator@AICAlliance.org](mailto:TheNAVigator@AICAlliance.org)

Click the link below to go to the home page of Active Investment Company Alliance to learn more:

<https://AICalliance.org/>

**Disclosure:** *Listed closed-end funds and business development companies trade on exchanges at prices that may be above or below their NAVs. There is no guarantee that an investor can sell shares at a price greater than or equal to the purchase price, or that a CEF's discount will narrow or be eliminated. Nonlisted closed-end funds and business development companies do not offer investors daily liquidity: often on a small percentage of share on a quarterly or semi-annual basis. CEFs often use leverage, which can increase a fund's risk or volatility. The actual amount of distributions may vary with fund performance and other conditions. Past performance is no guarantee for future results.*