



**ACTIVE INVESTMENT
COMPANY ALLIANCE**
Excellence beyond indexing

ABC's of CEFs

AICA Income Spotlight: Real Asset & Credit Investing

June 17, 2021

www.AICalliance.org

What is a Closed-End Fund (CEF)?



- 1940 Act Investment Company featuring:
 - Fixed-Capital
 - Active Management
 - Daily Liquidity
- Long, established history – CEFs have traded on the NYSE since 1893 (128 years): *Boston Personal Property Trust*
 - *Railway & Light Securities Fund* in 1904 -> 1st Levered CEF
- Funds can trade at prices both below NAV (discount) and above (premium)
- Tax-advantaged – earnings are passed through to investors in the form of dividends and distributions (similar to REITs and MLPs)
- CEFs can have debt and preferred shares as leverage
- The closed-end structure is not an asset class but an investment vehicle “*wrapper*”
- Interval & Tender Offer Funds (non-listed), have been around since 1989, but growth has picked up since 2017.
 - 178 Strategies and \$74.59 Billion in AUM (CEFDData.com: 3/31/21).



Slide 2

A1

DO WE NEED A SLIDE FOR JUST INTERVAL AND TENDER OFFER FUNDS?

Author, 4/19/2021

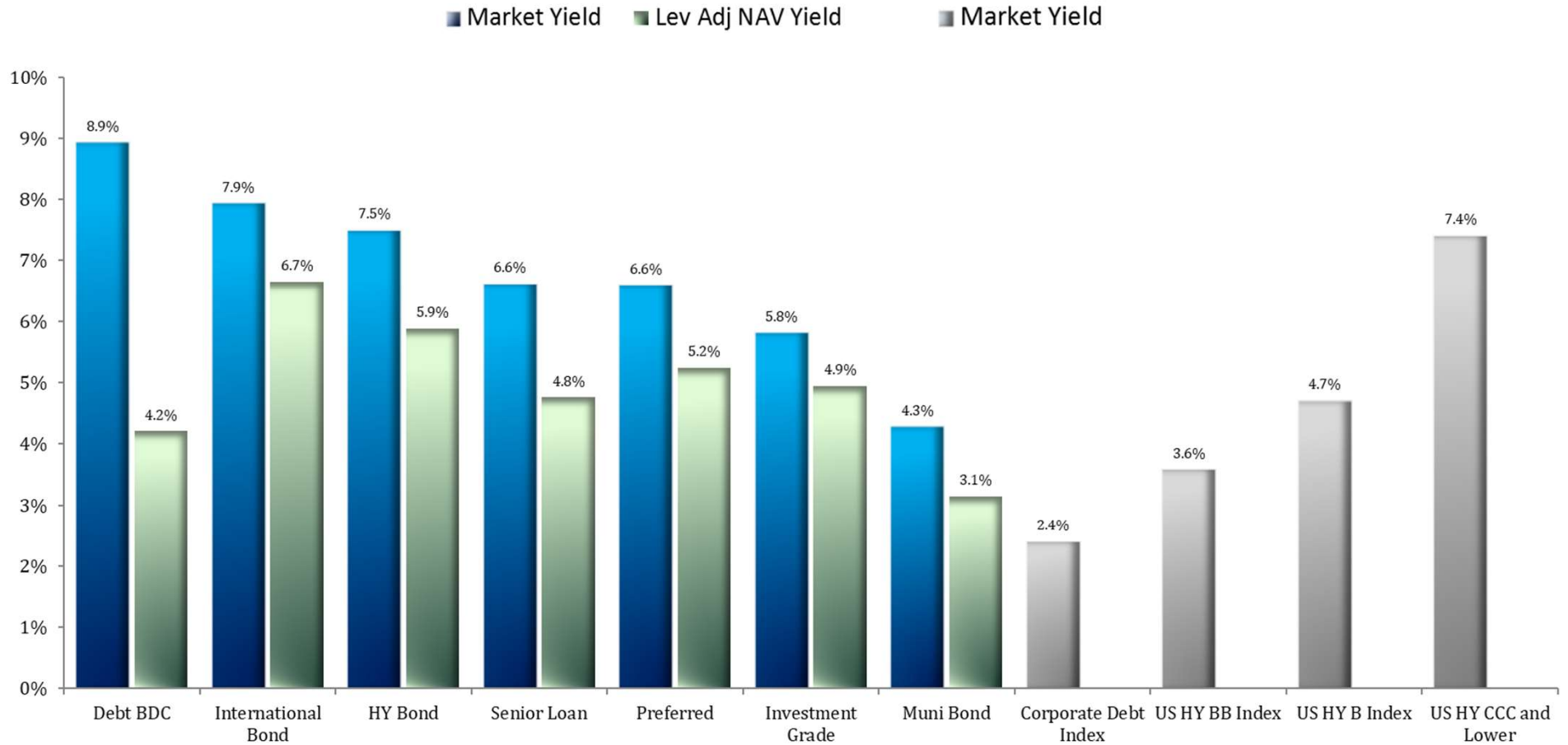
The CEF and BDC Investment Universe



	# of Funds	Total Net Assets	Premium / Discount	Market Yield	Beta	Duration	Leverage	Non Lev Expense Ratio	Average Net Assets
Equity Funds	194	\$127,329	-6.08%	6.59%	1.12		13.38%	1.48	\$656
Taxable Bond	149	\$63,917	-2.11%	7.34%	0.44	3.7	24.97%	1.56	\$429
Municipal Bond	138	\$68,984	-2.70%	4.28%	0.14	9.3	32.46%	1.01	\$500
BDCs	47	\$46,932	-4.45%	8.22%	1.56		45.61%	6.56	\$999
Total CEFs	528	\$307,161	-3.93%	6.34%	0.71	6.5	24.53%	1.83	\$582
Municipal Bond	138	\$68,984	-2.70%	4.28%	0.14	9.3	32.46%	1.01	\$500
Debt Focused BDC	43	\$46,444	-2.47%	8.93%	1.65		48.29%	6.67	\$1,080
World Stock	43	\$14,272	-10.18%	6.60%	0.94		7.89%	1.52	\$332
Tactical Group	41	\$28,410	-0.29%	7.96%	0.58	4.1	23.85%	1.46	\$693
High Yield Bond	34	\$12,876	-4.04%	7.50%	0.44	3.2	22.39%	1.32	\$379
US Stock	28	\$24,614	-6.93%	6.21%	0.95		9.29%	1.44	\$879
Senior Loan	27	\$10,013	-5.00%	6.62%	0.38	1.1	32.01%	1.82	\$371
Covered Call	26	\$22,215	-3.47%	7.23%	0.88		1.98%	1.10	\$854
MLP Funds	20	\$5,232	-15.87%	6.06%	2.45		22.00%	2.19	\$262
Preferred Equity	17	\$11,705	5.00%	6.59%	0.84	4.0	32.18%	1.23	\$689
International Bond	13	\$5,724	-0.23%	7.93%	0.46	4.8	20.25%	1.57	\$440
Investment Grade Bond	12	\$3,766	1.71%	5.81%	0.35	6.1	18.69%	0.95	\$314
Convertible Bond	10	\$5,465	-6.41%	7.19%	0.95	2.5	26.85%	1.38	\$547
REIT Funds	9	\$6,031	-4.75%	7.38%	1.17		21.58%	1.35	\$670

Source CEFData.com 3/31/2021

Debt Sectors - Yield Comparison

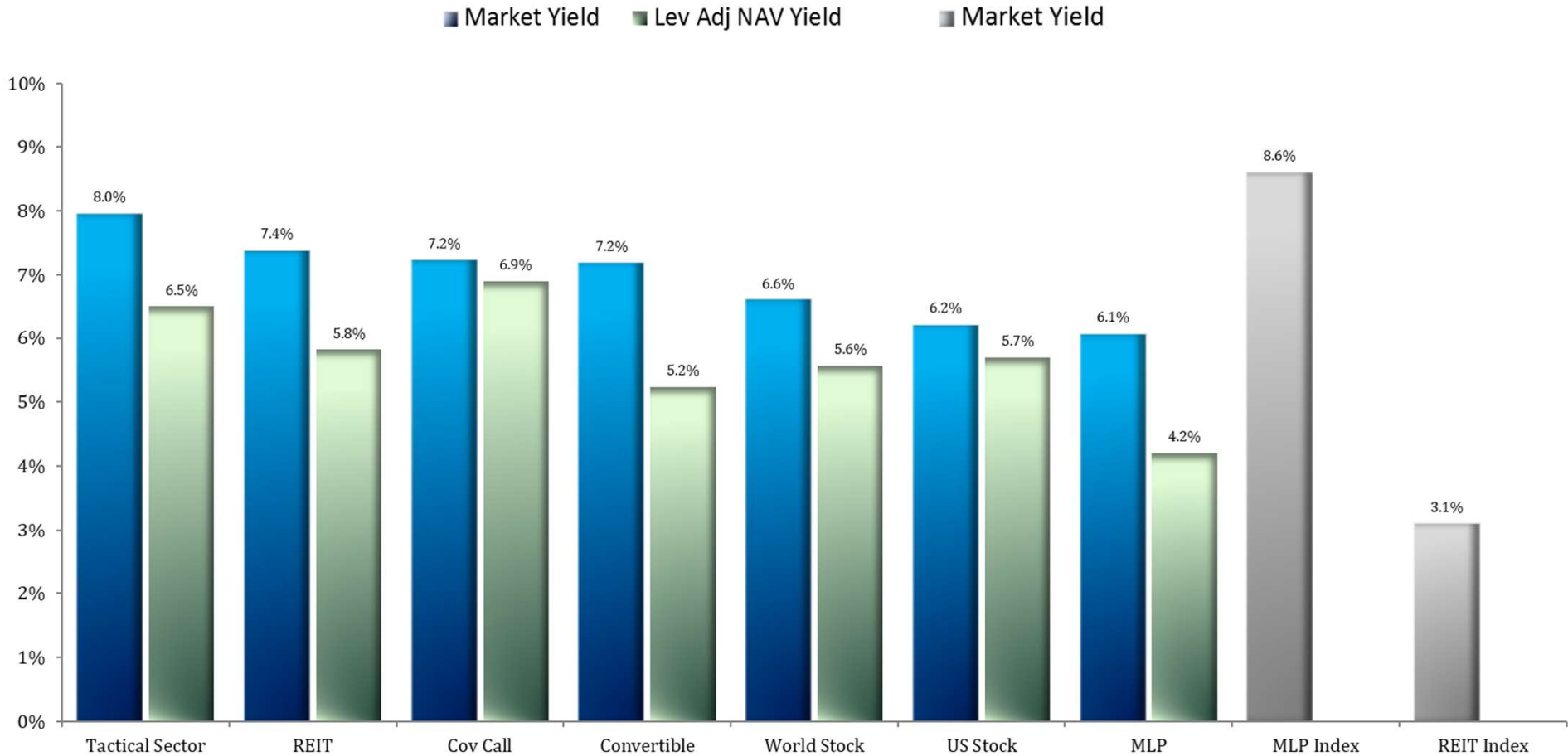


Data as of 3/31/2021.

MLP Index: **Alerian MLP Index**; REIT Index: **Wilshire US REIT Index**; Corporate Debt Index: **S&P 500 Bond Index**

US High Yield Indices : **BofA Merrill Lynch US High Yield (BB Rated, B Rated, CCC and Lower Rated)**

Equity Sectors - Yield Comparison



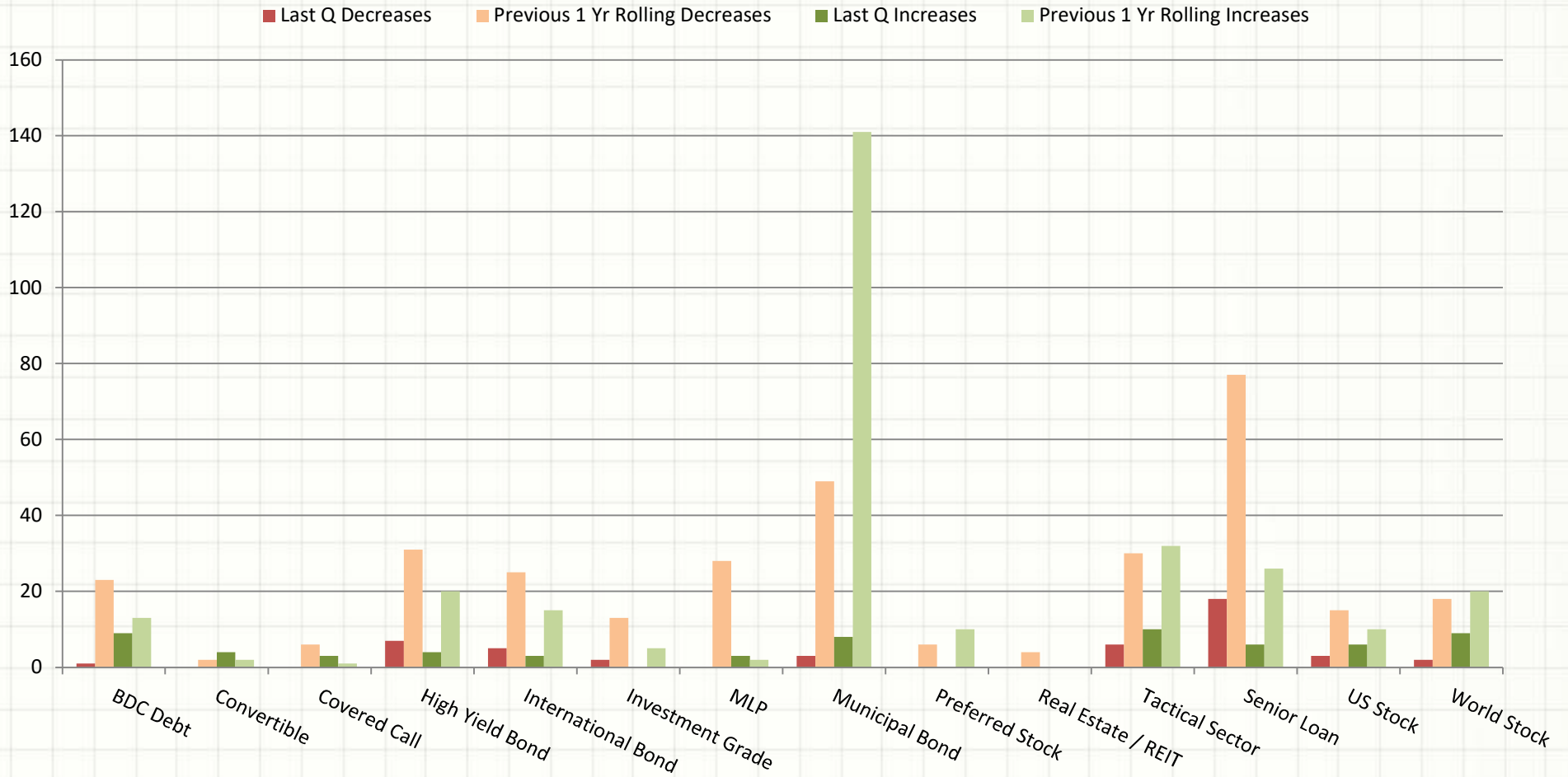
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1Q 2021 Closed-End Fund Dividend Increases vs. Decreases



**Major CEF Groups: Number of dividend decreases / increases
Last Quarter & Previous 1 Year Rolling**



CEF Distribution Lookback

(Policies NOT Promises)



3 Year Dividend Growth (2 : 1 Negative Ratio)

- 242 funds (50%) had negative 3-year growth (average -25%)
- 104 funds (22%) had positive 3-year growth (average +16%)

2 Year Lookback (2 : 1 Negative Ratio)

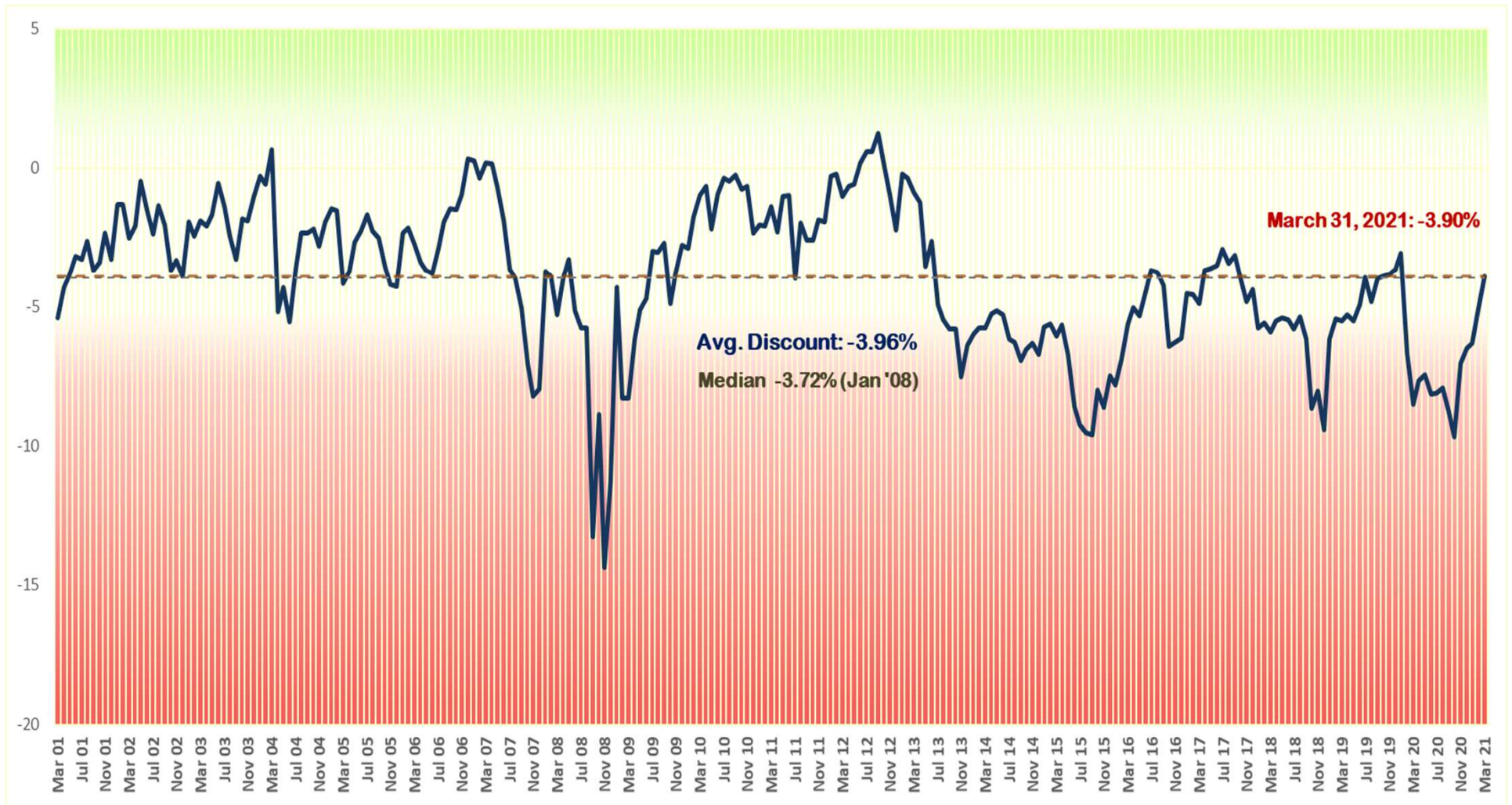
- 320 funds changed their dividend policy in the past 2 years (67% of funds)
- 161 cut (50.3%) an average of -20%, while 159 (49.7%) raised theirs an average of 11 %
- 162 of these funds have “level” or “managed distributions”
 - 67 of those were cut an average -17%
 - 95 were increased an average of +10%

1 Year Lookback (1.2 : 1 Negative Ratio)

- 182 increases vs 192 decreases
- 78 had BOTH increases and decreases in the past year

Source: CEFADData.com, as of March 31, 2021

All CEFs: 20 Year Discount History

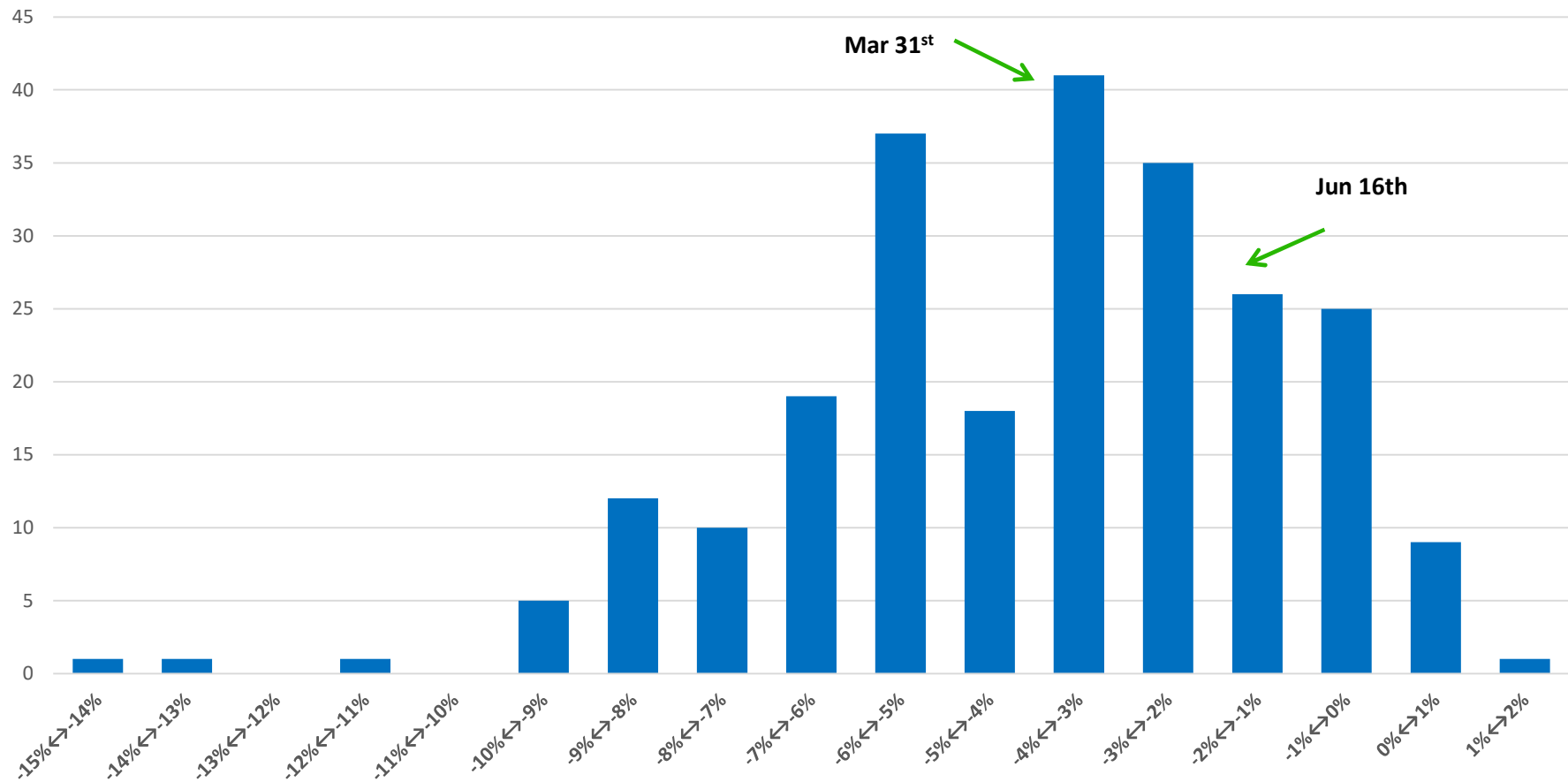


All CEFs

20 Year Discount Level Frequency



Discount Monthly Levels (March '01 - March '21)



CEF & BDC IPOs – Annual Trend



	2021 YTD	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
<i>Number of IPOs</i>											
CEF	3	10	12	4	11	8	8	9	25	23	19
BDC	0	2	1	1	2	0	1	6	2	5	7
TOTAL	3	12	13	5	13	8	9	15	27	28	26

Average Assets (\$ Millions)

CEF	\$2,280	\$852	\$429	\$80	\$294	\$225	\$291	\$469	\$580	\$517	\$316
BDC	\$0	\$2,368	\$6,890	\$152	\$2,852	\$0	\$120	\$543	\$90	\$96	\$101
AVERAGE	\$1,220	\$1,105	\$926	\$94	\$646	\$225	\$272	\$498	\$543	\$442	\$258

Total IPO Assets (\$ Millions)

CEF	\$6,840	\$8,525	\$5,148	\$319	\$3,239	\$1,799	\$2,327	\$4,218	\$14,488	\$11,891	\$6,004
BDC	\$0	\$4,736	\$6,890	\$152	\$5,163	\$0	\$120	\$3,257	\$180	\$480	\$707
TOTAL	\$6,840	\$13,261	\$12,038	\$471	\$8,402	\$1,799	\$2,447	\$7,475	\$14,668	\$12,371	\$6,711

10 Year Average: 16 funds per year, \$499 MM avg fund assets, \$8.0 B avg raised per year

Source: SEC Filings, Press Releases

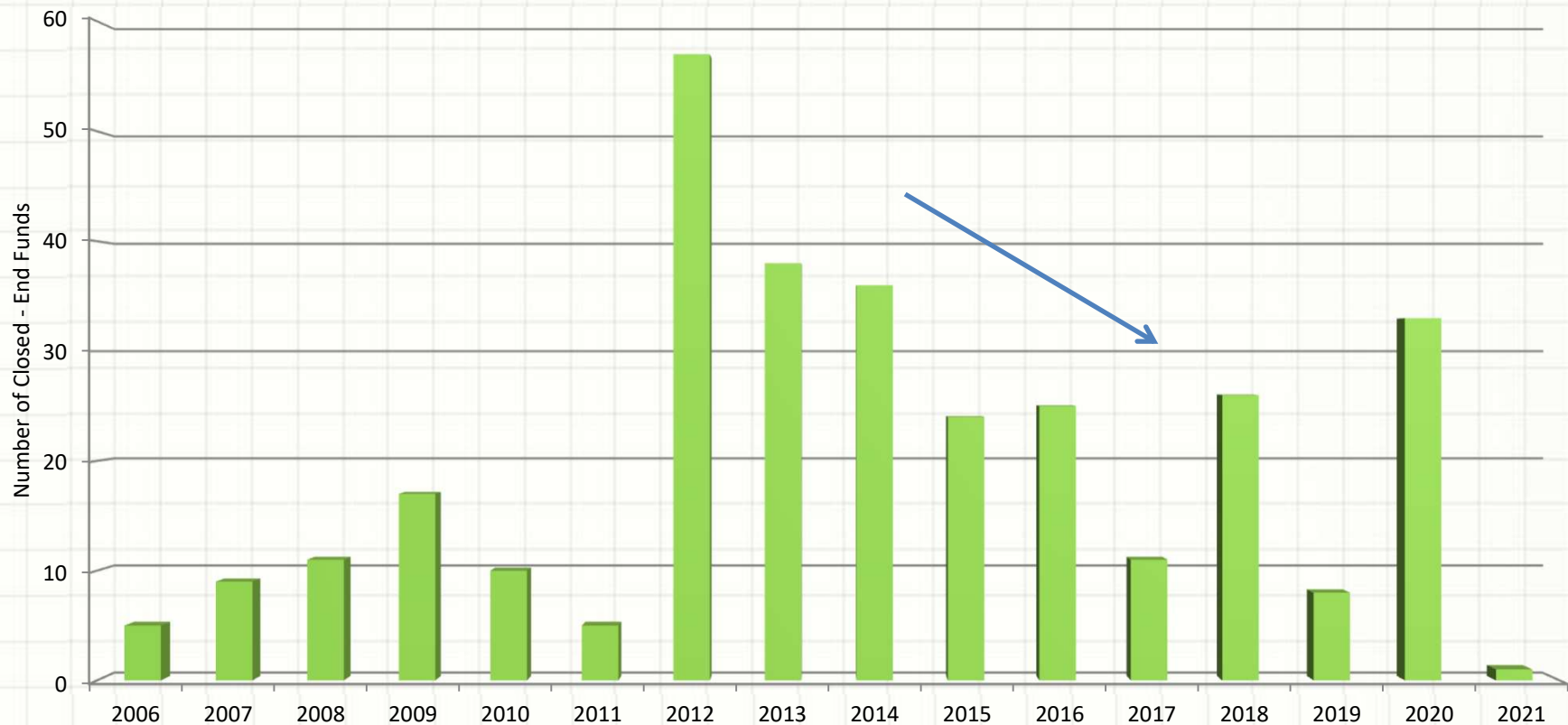
Closed-End Fund Mergers



Reasons to merge: lower expense ratios (scale), increased liquidity, lower fund leverage costs

Avg ~20 per year

Closed-End Funds Merged into Other Closed-End Funds (Mar 2021)

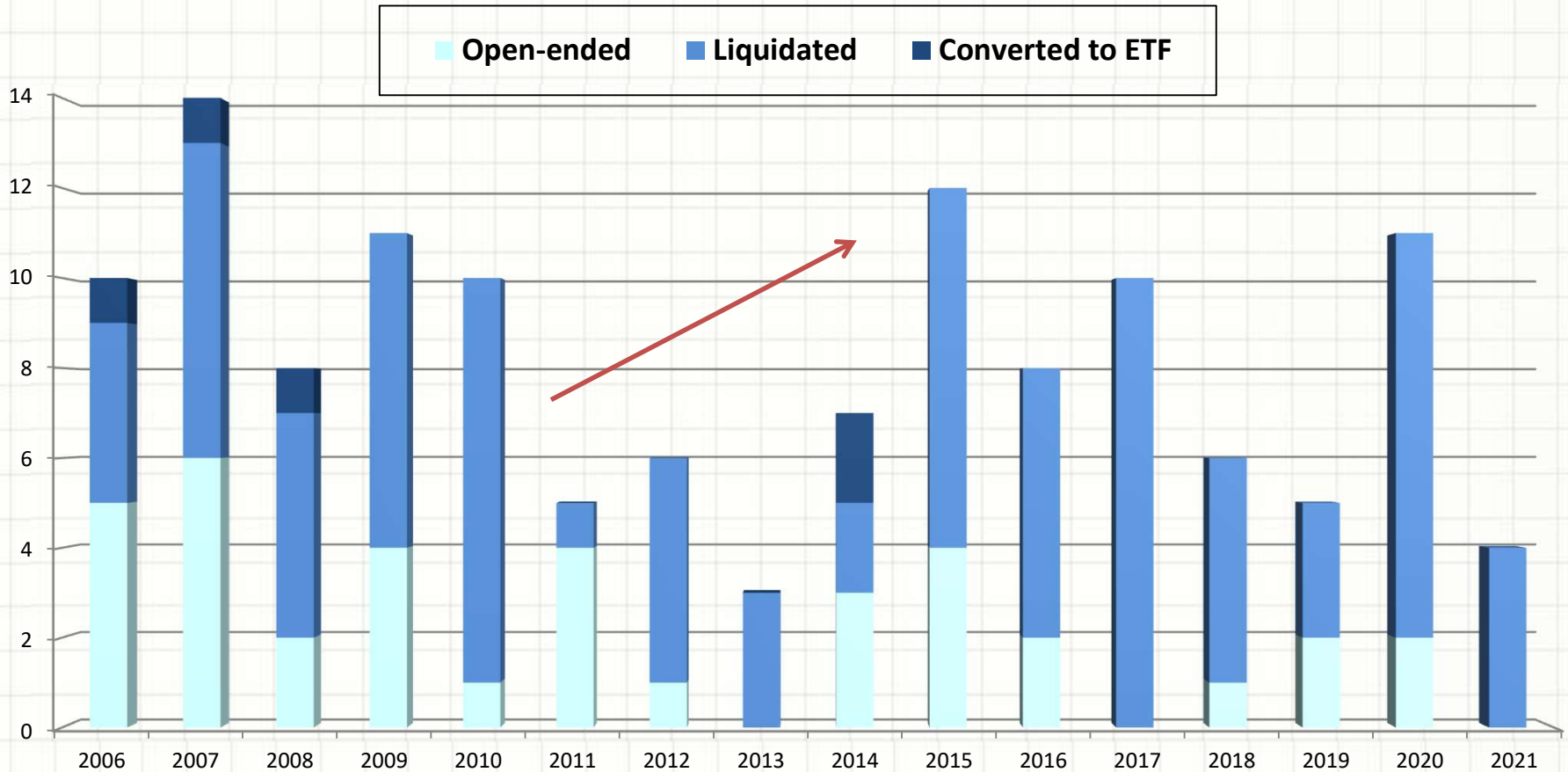


Closed-End Fund Deaths

Open-Ending, Liquidation & Conversion



CEF Funds Open-Ended, Liquidated or Converted to ETF

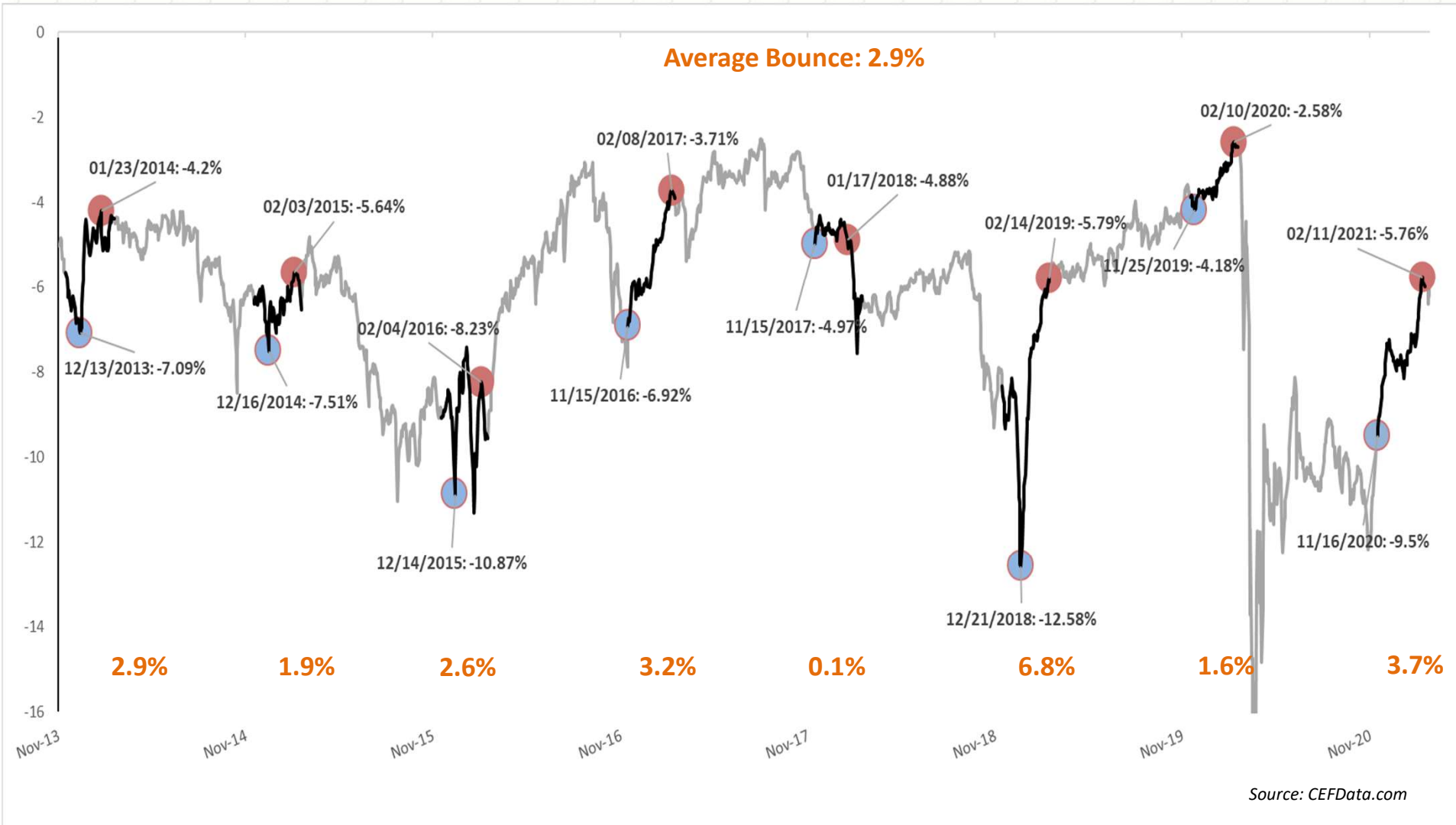


Average is about 8 per year



Discount Seasonality & Tax Loss Selling

14 Major Sector Avg Discount Moves From November to February



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